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No. 2088



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CEMA COOPERATION MECHANISM EXAMINED

Budapest KOZGAZDASAGI SZEMLE in Hungarian No 12, Dec 80 pp 1451-1464

[Article by Mihaly Patai: "On CEMA Cooperation"]

I

[Text] Cooperation among the CEMA countries began in the 1970's under the Complex Program, which conceives of integration as a comprehensive whole. The realization of the Complex Program, however, is being retarded by familiar events occurring in the world economy. A radical reorganization of the world economy and market has in part sharpened and in part brought to the surface the existing strained contradictions of socialist management along with those of CEMA cooperation. The capitalist crisis appeared in the economic political practice of the socialist countries as the new effect of an "import" component. Moreover, the unfounded optimism of the economic and political leadership regarding defensibility against the capitalist crisis caused great harm. It hindered the immediate start of an adjustment and delayed a decision until such a point of time that it was forced by the need itself.

In this article I shall try to analyze several elements of socialist economic cooperation with particular regard to the characteristics of cooperation in the 1970's. To do this, I would like to mention at the very beginning the following as "axioms":

--It was basically political considerations that played the main role in the establishment of CEMA. In the world political situation existing at that time there was no alternative to creating a socialist economic community. Commercial relations among the member states, mainly between the Soviet Union and other states, were not traditional. Following World War II the foreign economic relations of the Central East European states was diverted 180 degrees within a short time from West to East.

--The Soviet Union became the most important partner of the European CEMA states. The acceptance of Soviet socio-economic theory and practice and the given world political situation forced an autarchic economic model on basically open economies.

--As a function of economic openness or a closed economy, the incentive to integration is not of the same force in the individual member states. The Soviet

Union is a great power rich in natural resources, with a gigantic producer capacity and domestic market--in principle it is a characteristically closed economy. Dependent on international work distribution, the other countries are open economies. Thus the compulsion to integration and the economic interests in maintaining and further developing CEMA are strong in the small countries, while the Soviet Union as the leading political and military power in the area is interested decisively from the political aspect in the development of a socialist economic community.

--When the economic bloc was established, there were significant differences in the level of economic development among the member states, the GDR at one pole and the Balkan states at the other. The considerable variation in development sets limits to the possibility for an integrated relationship.

--Close economic relations have developed among the member states during 30 years of CEMA cooperation. In most of them, CEMA relations have become a predominant factor.

Economic Growth in the 1970's

Between 1970 and 1977, national income grew about one and one-half times in the CEMA member states. It grew the most rapidly in Romania, where it was doubled in 7 years. National income in the CEMA states grew annually by 6 percent on the average between 1971 and 1977. In the first half of the decade it grew at a more rapid rate of 6.4 percent.¹

We can draw two important deductions from this: 1. As compared to the developed capitalist countries, the socialist states achieved a high growth rate in the 1970's and in this sense the unfavorable effect of the capitalist recession cannot be shown, and only by the end of the decade was there a clear decline. 2. The growth rate is gradually declining in all the socialist states. It continued to decline between 1978 and 1979; in the Soviet Union the average growth rate in national income was 3.8 percent between 1976 and 1979, although for 1980 the planning goal was 4 percent [Source 2].

In Romania an average annual growth rate of 10.4 percent can be expected in national income between 1976 and 1980 (11 percent in industrial production and 5.4 to 6 percent in agriculture). For the succeeding plan period (1981 to 1985), on the other hand, the Romanian Communist Party at its 12th Congress called for only a 6.7 to 7.4 percent increase in national income, 9 to 10 percent in industrial production, 4.5 to 5 percent in agricultural production, and 5.4 percent in investments [Source 12].

Because of the slowing down in economic growth, the individual CEMA states will not be able completely to fulfill the five-year plans for the period 1976 to 1980. In a certain sense, the spontaneous slowing down has become a guided process. By 1976-1977, to be sure, the economic equilibrium in most of the socialist countries had come apart, and following this the decline in the growth rate in the overwhelming majority of the countries is a manifestation of a de facto or de jure proclaimed equilibrium policy. They changed their economic political goal systems in the plan period and slowed down growth. It was under this sign, for example,

that the 1980 annual plan for Poland called for an increase in national income of 1.4 to 1.8 percent [Source 3].

East-West Relations

An important world economic factor in the 1970's was the liveliness in East-West relations. The CEMA states endeavored to obtain through this channel the technologies necessary for the starting of intensive-type growth, but which could not be obtained within the community. In CEMA these relations frequently appeared as the cause of the disintegration process that was running its course.²

The efficiency and quality differences between the socialist and the developed capitalist countries were clearly evident in East-West relations, for example, in the price variations for the same products. An important role was also played in this by the open or concealed discrimination practiced by the capitalist countries.

By the second half of the 1970's the rapid expansion of East-West trade had slowed down, partly because of the deterioration in the world political situation, the slowing down of the process of detente, and partly because of the indebtedness incurred by the socialist countries, and partly because of the delayed development on the capitalist upswing. The strengthening of the positions of a group of developing countries and the increased interest of the capitalist countries in these economies also moved developments in this direction. Therefore we cannot expect a dynamic development in East-West relations for the next 5 to 10 years.

As a result of the expansion of East-West relations, or the factoring in of the economic crisis, the internal CEMA relations were changed. The delimitation of soft and hard goods was strengthened and there was an increase in the ratio of trade conducted in hard currency; the practice of price formation was altered; and as a function of export composition, there was a transformation in the situation of the member states. The most striking sign of these processes was the upward evaluation of USSR exports. The change in positions or the transformation of the lines of power is perceptibly evident in the development of the terms of trade. These terms deteriorated for most of the member states. In this area the watershed was endowment in natural resources.

The Energy Situation

Since the eruption of the energy crisis, this problem has also been receiving increasingly greater attention in the socialist countries. At the center of attention on one hand is the problem of shortages, and on the other hand of the efficient use of energy. This is shown by a series of studies³ from which it becomes evident that in most CEMA countries a deteriorating ratio exists between the volume of energy produced and required. It is well known that the socialist countries use for the manufacture of one unit of social end-product much more material and energy than the more economically developed capitalist countries [Source 5].

In general up to now the energy problem in the socialist countries has not resulted in shortages. On the other hand, energy prices have risen, and the state

has increasingly pressed for great conservation. Of course, in respect to CEMA as a whole, production and consumption are in harmony: the community is the most independent region in the world economy in regard to energy supplies. (The volume of export or import as compared to the energy produced in the region is negligible.)

The energy independence of CEMA rests on the ample natural resources of the Soviet Union, which has the world's greatest energetics complex, although here too the area location of the resources causes difficulties. The bottleneck at present is in capital. To exploit Siberia's resources, the Soviet Union is seeking to bring in foreign capital (both Western and socialist). The system of investment contributions is in accordance with the latter as a consequence of which the direction of long term credits flowed from the Soviet Union into the East European socialist states, and at present the situation is reversed [Source 6, p. 88].

The future energy supplies of CEMA also depend basically on the Soviet Union. In the years to come, the increasing requirements of the European member states cannot be fully met in present composition and structure. As a consequence, the importance in the volume of petroleum imports from the developing world will increase.⁴

Intra-CEMA trade has gradually expanded while in capitalist trade there was a standstill in the case of some countries in 1975-1976. In these countries the changes can be explained by the measures, not always documented, taken to restore the equilibrium; these measures were aimed at a rational modification of capitalist trade (meaning a decline in many cases). From the point of view of the community as a whole, an inward-turning has begun. Efforts at restoring the equilibrium were manifested in export offensives, import restrictions, or in an "alloying" of the two. Generally, the equilibrium was improved successfully where the emphasis was placed decisively on import restrictions, but this had a negative effect on domestic supply and economic development. The proclamation of an equilibrium policy (the slowing down of growth) led in most cases to the non-fulfillment by the socialist countries of the medium term plans in 1976-1980.

A balancing is evident in the trade of the European member states with one another, that is, the gap is narrowing in the ratio of their trade with one another, and the predominant role of the Soviet Union is growing in their trade.

The radial nature of the internal CEMA commercial relations did not change in the 1970's. The separation of the "center and periphery" was not eased. The countries are linked in a predominant sort of way and with similar goods to the Soviet Union, and accordingly the importance of the small country trade lags behind the possibilities afforded by economic-geographical conditions. The non-European CEMA countries maintain and practice substantial relations only with the Soviet Union. (Here we face an extreme instance of the foregoing statement or trend.) This fact suggests that the problems of these member states must be treated separately from the others, not only in individual cases but also in a conceptual sense.

With increased capitalist trade, the development of a radial structure could also be observed in capitalist relations. In the 1970's the socialists expanded their

capitalist trade most rapidly with the FRG. They did so to such an extent that by the end of the decade the FRG became a predominant factor--the relationship between the "center and periphery" became more clearly outlined here also.

The structure of CEMA foreign trade shows a very differentiated picture in the three main trade relations. In intra-CEMA trade the ratio of trade in machinery and equipment is very high. CEMA is related to the developed capitalist countries with a product structure characteristic of the less developed countries. This nature of relationship became even clearer in the 1970's, that is, despite efforts to the contrary there was no positive change. In exports to the developing countries there was an increase, in the period under study, in the so-called special entries, and in imports in the importance of energy sources and raw materials.

Specialization and Cooperation

One of the most important goals of CEMA cooperation is the expansion of international work distribution by means of specialization and cooperation. This effort was expressed in the first half of the 1960's by the joint resolution called "Efficient Measures," which set as a goal the realization of specialization among the member states. In the years following this resolution, concrete decisions were also made. For example, Hungary came to specialize in bus manufacture, and gave up in deference to Bulgaria the manufacture of the then popular Szatmar radio.

It is also well known that we did not succeed in realizing our ideas about specialization and cooperation. Parallel producer capacities are still characteristic of the CEMA member states. The best example of this is the parallel nature of bus manufacture mentioned above.

Inseparable from the CEMA specialization and cooperation measures are the special goal programs on which the 1975 CEMA session decided. It was on this basis that the long term special goal programs extending until 1990 were born. The target of a special goal program embracing a given vertical of the national producer sphere is the strengthening of integration relations among the member states and the working out of modes of cooperation designed for joint satisfaction of national needs. There is reference in the Complex Program to the fact that in respect to certain product types the integrating economies are coordinating their plans for longer periods than the medium term plans.

Up to now the CEMA countries have worked out five special goal programs, namely, in the field of energetics, machine manufacture, transportation, the food economy, and the manufacture of industrial items. For the time being the programs have indicated the main lines of solutions, and the possible modes of cooperation. The programs will be "filled out" in practice in the course of the bilateral agreements.

It is still too early to prophesy about the success of realizing the special goal program. One matter, however, is clear: neither in theory nor in practice do the special goal programs include qualitatively new cooperation characteristics. There is great danger that the special goal programs will not eliminate the

underlying causes for the development and reproduction of the existing irrational production parallels, and from this point of view it is to be feared that they represent purely formal advances.

On balance, there are signs that the socialist countries have come into a new situation out of which it is necessary to take further steps, and this will be of great importance for the coming decades. The new situation of course is not really new, for the problems which have been conceived in our days existed also before, but they now appear in sharper relief.

II

According to the common Hungarian professional literature, the backbone of the CEMA cooperation mechanism, the multilateral accounting system, represented only a formal step forward in its manner of approach.

In foreign economic relations the emphasis is still essentially on bilateral cooperation.

There is an enormous contradiction in the CEMA accounting system between the multilateral institutional framework and bilateral practice. The commodity delivery agreements of the member states are firm, naturally balanced. The fact that the purchase of goods above the plan is excluded in practice, and that the act of buying-selling is linked to the criteria that are built into the plan without the interests of the producer-consumer, the supplier and the consumer being expressed therein basically define the quality of the foreign currency relations. The transferable ruble moves in a closed accounting circle, it has no substantive relation either with currencies outside or inside the circle.

In the literature dealing with CEMA, views are expressed that the present relations of CEMA cooperation meet objective requirements and that the mechanism operates according to needs. Accordingly, every new element is an attempt to upset normal operation of the system.

The decisive majority of the writings which have appeared on CEMA foreign currency-financial questions emphasize appreciation for our results and deal only in passing with the difficulties. According to most of the experts, the experiences of the past decade and a half since the "creation" of the transferable ruble are favorable and meet expectations vis-a-vis the system. As the key currency of the accounting system, the transferable ruble has all those attributes (international and collective character, value-measuring, and payments means function)--they maintain--which enable it to fulfill the role of a fullvalue money unit. At the same time, they also point out that "the possibilities latent in the mechanism are not always exploited to the full extent," and that "in our days independently of the function of the multilateral accounting system the commodity trade among the countries is balanced out for the most part bilaterally" [Source 7, p. 14].

Some also hold the view that in respect to its institutional possibilities the present accounting system exceeds the requirements placed by the present commodity exchange in foreign trade. For the conduct of the present decisively bilateral foreign trade relations, a multilateral accounting system is not unconditionally necessary.

There is agreement in that the CEMA cooperation mechanism (the accounting, price, exchange rate and credit mechanism) remained essentially unchanged in the 1970's while highly important changes occurred in the external and internal condition system of CEMA cooperation. Of course there were attempts in the 1970's at eliminating the weaknesses of the accounting system. One of the most debated problems is the practical unusability of the assets appearing in the accounting system, something which has for long occupied the experts. At the beginning of the 1970's two views prevailed at conferences of experts regarding a solution. One trend recommended the so-called letter of credit method.⁶ The other proposal recommended, on the model of the EPU (European Payments Union), the gradual "balance hardening" method. The supporters of both views proceeded from the point of view that the transformation to actual transferability could not require completely new methods.

It is well known that several CEMA states have put the latter idea into practice. As an experiment beginning on 1 January 1974 they introduced for the 1973 transactions partial convertibility of the transferable ruble into gold or convertible currency. But actual convertibility did not take place. The main reason for this was that the accounting debt liability and the credit liability with a time limit did not reach that limit above which conversion would have been realized. (The agreement referred to demands or debts exceeding the determined limit.) The national banks regulated the extent of the account credit liabilities in such a way that it could not reach that certain level above which conversion was compulsory. (The national banks could charge this practice to credits with a time limit. The conditions of the experiment did not make conversion possible because a valve remained in the system which raised from the beginning the likelihood of failure.) Subsequently, the interested states supported the elimination of the experimental practice.

In judging the above two proposals (and in general the ideas designed to change the accounting system with small measures), the following must be taken into account:

--The EPU account system was only a transaction method. To attain convertibility the West Europeans worked out and executed undertaking plans embracing the entire economy. The initiative role of the United States was decisive, as well as its active political-financial support; the United States financed the operations of the multilateral clearing.

--The lessons of the above-mentioned 1974 experiment warned of the need for caution. The possible failure of technical type measures introduced to attain correctly selected goals can set back for a long time the development of categories that are not purely technical-economic.

--The creation of the usability of demands on the transferable ruble is an important task, and in general the proposal could serve as the basis for solving the task. I am convinced, however, that in the present phase of CEMA cooperation the well-known, complex problems embracing the entire economy require a comprehensive solution (besides the actual economic difficulties, for example, the parallel producer capacities which have developed in CEMA and as a consequence thereof an uncoordinated presence on the capitalist market; the weaknesses in the internal

economic guidance systems, the problems of work discipline, and so forth). The problem of the transferable ruble is only a part of the difficulties present in CEMA cooperation. The solution is a function of decisions affecting socialist integration as a whole. On the very important points of cooperation, we should advance along the entire profile.

Scientific analyses have clearly shown that the possibilities for extensive economic development for the socialist countries have been exhausted, and it is necessary to shape a new, intensive-type development model. But this model has not been developed as yet, and the socialist world is in a transitional period between two development models.

We must (and can) respond to the requirements raised by the new, altered conditions only in a way that is different from what we have done up to now at every level of the economic pyramid (investment, production, commerce, and the foreign currency-financial sphere). Although I have no intention of daring to undertake the outline of a new value system, it is certain that the strengthening of the role of commodity and money categories in the given development phase of the socialist economy is an objective process. During the past decade, the role of value categories has increased in CEMA, but not in every respect.

In connection with the future of the cooperation mechanism, the question of the relationship between the national and international mechanisms always rises. The experts agree that the relationships between these mechanisms are mutual, the internal guidance systems affect the external and vice versa. The positions vary on which is the most important. A large majority regards the internal mechanism as the most important, that is, the international mechanism cannot be more developed than the internal mechanism.

As opposed to this, there regularly rises a truly peripheral type theory regarding the "rate of difference" between the national and the international mechanism. The line of thought is as follows: In the socialist countries, foreign trade expands at a fast rate. The greater the foreign trade the greater the need for a flexible relationship between production and demand (here the emphasis is on external demand!). The present mechanism does not assure this flexible relationship. The internal mechanisms are not in harmony with the external. The development of the internal guidance systems was more rapid than the development of the CEMA mechanism.⁷

This slightly illusory logic neglects two important tasks. One is that in the socialist countries a louder and louder voice is being acquired by the position that in the socialist countries the changes which have taken place in the mechanisms were much more restrained in practice than planned although the ideas too called for strongly limited changes. The other is that the supporters of the theory do not take into account the political power relations and the law of the "bottle-neck" due to variations in the economic development level. The relationships among the economic partners are determined basically by the possibilities and endowments of the largest economic units.

There is a dialectical relationship between the national and the international mechanism: in principle the back and forth effect exists mutually. In CEMA,

which is a uninuclear integrational configuration, this develops in accordance with this characteristic. In the relationship, therefore, the dominant aspect is the internal economic guidance mechanism, chiefly the internal mechanism of the biggest economic units, namely, the "international mechanism"--in accordance with the law of the "bottleneck"--is always determined by the more rigid internal guidance system among the cooperating countries. The development of the internal mechanism in a few countries is not enough if another state, participating in the cooperation does not develop its internal guidance system at an adequate rate [Source 8].

In international work distribution the internal economic guidance system necessarily projects essentially natural internal relations also on the area of foreign trade and other international relations because it is not possible organically to build other types of external relations into the internal management system. The international mechanism method always adjusts to the internal guidance system of the partner following the more bound forms (the bottleneck principle is realized here too), and meanwhile it holds back the effect of the looser market forms and of indirect regulation in other economies, that is, it draws in its wake a distortion in the ratio of the indirect and direct guidance elements.

In the latter half of the 1960's attempts were made to develop further the national economic mechanisms. The member states tried changes of various magnitudes in various directions. At present we can distinguish among three sub-types. Lacking more exact definitions, these are the "Vietnam," the "Soviet," and the "Hungarian," type of solutions; that is the scale is very broad extending from war management to a plan management that keeps enterprise independence within certain limits. Despite the broad scale, the national guidance systems belong to the same quality category, all the more so since Vietnam recently started its transformation to central plan management. (The indirect proof of the same quality category is the fact that independently of the character of the national mechanisms the member states have not solved the problem of the necessary change in production structure which has been voiced for so long.

Neither the national nor the international mechanisms responded adequately to the epochal changes of the 1970's. Manifested therein is the contradiction between the new situation and the old instruments. The rigidity of the response given to the problems of the 1970's led to an accumulation of difficulties.

The decisive link in the internal mechanisms--and indirectly in the CEMA cooperation mechanism--for the necessary progress is the creation of a realistic and unified evaluation system (the price system plays this role between the commodity and money relations). The internal price system of the individual CEMA countries are still fairly closed systems and reflect the unique production conditions of the given country, and the cost-calculating, accounting and net income withholding methods used in the national economy, the living standard, and more recently everywhere the rise in financial supports. The varying price systems, which were created and operate on varying bases, have made an international comparison of prices impossible since the differences in the production prices of products of the individual countries cannot be defined fully by the differences in management conditions. Difficulties which in the national frameworks stem from the weakness of the real evaluation system are present at the international level to a highly increased degree.

III

In weighing the possibilities for progress, the starting point is that in the present phase of CEMA cooperation the complex problems call for complex cooperation and comprehensive solutions. We cannot expect to attain the desired economic results by pursuing the practice of the 1970's when we chose from among the elements of the cooperation mechanism only one factor, namely, the contractual price [9].

In the 1970's the CEMA cooperation mechanism did not follow the changes in the foreign economic environment and the internal conditions, as a consequence of which the difficulties accumulated. In the following medium term plan period the strains which appear at important points of socialist management and are in close relationship with one another—for example, efficiency, economic growth, the living standard, scientific-technical development, work discipline, and the equilibrium—call for a comprehensive, frontal change of mechanism. In the following I should like to outline several of the future changes.

The changes ensuing in CEMA in accordance with economic law will in all certainty have an effect on the foreign currency-financial sphere and on its key element, the transferable ruble. In this connection, two significantly different views have taken shape in CEMA literature on the future role of the transferable ruble. Outside of the Hungarian, studies have also appeared in the CSSR and Romanian literature in recent years which count on an increased role for national currencies. According to this thinking, the national currencies would take over certain accounting and payment means functions. To take an imperfect example, the transferable ruble would primarily fulfill an SDR [Special Drawing Rights] type of reserve-means function. This does not mean deemphasizing the transferable ruble, and in fact it would result in a quality development, that is to say, a quality change could take place with a reduction in the number of functions to be filled in the carrying out of certain tasks. In contrast with the above view, other economists--and this can be mentioned as the second view--regard an increased role for the transferable ruble as a basic development requirement of the CEMA foreign currency-financial system.⁸

It would be an error to overemphasize the differences of opinion, and all the more so because the main question is not the future role of the transferable ruble but the development of socialist integration. We must select the means system that is appropriate to this goal.

In recent times more and more experts are advocating more direct cooperation among managing units and the promotion of micro-integrational relations. "This can be achieved only if in the course of medium and long term plan coordination the mutual relations will not be determined in every detail and an area of mobility will be left which will make possible a state and enterprise reaction to the world market changes [Source 11, p. 1292].

As for convertibility, which is often mentioned also in the capitalist literature⁹, more and more people believe today that for two basic reasons the development of CEMA foreign currency relations is headed toward convertibility: 1. the increasing role of goods and money relations is an objective necessity of the socialist

economies; 2. the socialist states are maintaining increasingly expanding relations with the capitalist states, that is, states with convertible currencies). Thus an economic consciousness changing in accordance with the requirements of economic practice arrived of necessity to the problem of foreign exchange convertibility.

The socialist states do not have a unified position in this area. The various positions, here also as in many other cases, are strongly influenced by the extent of economic openness and by the economic guidance mechanism. Guidance systems of a direct and indirect type do not require convertibility for the national currency in the same way. (It cannot even function successfully in both systems.) The extent of economic openness also influences the national interest.

Foreign convertibility is not alien to the socialist economies. According to the position stated in the Complex Program, the convertibility of the currencies of the socialist states in CEMA can be attained by perfecting the money functions of the collective currency and by assuring thereafter its convertibility.

For the common CEMA currency to become convertible, basic changes must occur in the foreign exchange-financial system to assure the conditions. Undoubtedly, in the present situation CEMA requires the rapid development of foreign exchange relations, and at the same time--since this cannot be expected of the transferable ruble alone--we must turn toward the national currencies, which would not mean putting the common currency into the background. The question of foreign exchange convertibility appears both at the national and CEMA level. We must not separate --and mainly we must not confront with each other--the development process of the common and national currencies. The "common" and the "independent" path require similar internal measures by the member states. The long term CEMA financial system, therefore, can rest on the linked utilization of the national currencies and the international currency. For this very reason, we must act in a parallel way both in improving the situation of accountings in the transferable ruble as well as creating the conditions for the convertibility of the national currencies.

The development of the financial-foreign exchange system will assure a greater area of mobility for economic policy, and in the final analysis it would also expand for cooperation the inventory of economic political means and make more diversified management possible. In all certainty we must also make progress in developing communications relations, including in this all information acquisition and information supply possibilities from easing the relationships of citizens to a flow of information at the government level.

A complex solution to the CEMA problems depends above all on a unified coordinated position on also the economic problems facing the highest political levels. On the other hand this requires that the CEMA member states should also separately represent a complex position; emphasis must be transferred from debates on partial questions to debates on conceptual questions. This unconditionally requires thinking on the alternative.

Considering the economic, military and foreign political difficulties, we cannot, in our opinion, maintain in the future a homogenous "CEMA picture." The solution to the problems could be represented by giving up the unified--in every element--

market system and by stimulating the development of internal integrational focal points. At present the development of three heavy focal points appears the most likely. These are Eastern Europe, Southeast Asia, and the already rather integrated Soviet Union. The other states (among the present including Bulgaria and Cuba) would continue to build on preponderantly Soviet relations; while Romania's balancing policy would receive an institutional area of mobility.

The idea of a so-called small integration of East European CEMA states is not a new invention, it is a well-known concept among the experts, but up to now it has not actually been explained in the literature. This can be ascribed to the fact that the problem--for imagined or real reasons--has always been treated as "political." Here we want unconditionally to state that the idea of a "small integration"--for want of a better expression--is by no means anti-CEMA or in any case anti-Soviet. On the contrary. Strengthening of the relations among the small countries would not mean shutting themselves off from the other parts of CEMA, but better exploitation of the possibilities stemming from economic-geographical conditions, and from similarities with the interests of the community. An increased convergence of the Central East European states which have a slight role in the two main relations and are struggling with similar problems would not and could not run counter to the political and military status quo which has developed between the two world systems. The change would come up as an internal problem of the socialist world system.

Despite the strongly radial structure of CEMA, a certain intertwining can already be observed in Central East Europe. The GDR, the CSSR, and Poland conduct half their CEMA trade with the Soviet Union; but there are closer relations among these three countries than generally with the community as a whole. In all three, the other two countries are the most important trading partners following the Soviet Union. They represent a significant 12-16 percent ratio in CEMA trade among one another. Hungary is linked relatively strongly to these countries. Here too the relationship with the Soviet Union is of course the most important. In Hungary's CEMA trade the GDR has 15 percent, the CSSR 13-14 percent, and Poland 8-9 percent. In magnitude, Hungary does not have such an important share in the trade of the three countries. It is noteworthy that in economic relations none of the countries has a dominant position vis-a-vis the other three, and moreover the citizen relationships (particularly in tourism and foreign jobs) are more developed than in other areas of the zone. Unofficially the strengthening of the CSSR-Poland-GDR triangle has always been an endeavor, but rarely has it risen to official status; such, for example, was the attempt to introduce convertibility between the GDR and Poland.

The main problem of the Central East European, basically open, CEMA states is the narrowed foreign economic areas of mobility nowadays. The economies of the area have been wedged between two outstandingly integrated units, Western Europe and the Soviet Union. The development of points of linkage with such developed and integrated communities is extremely difficult and frequently impossible. The hope of a breakthrough to another area of the world economy is becoming weaker. In the past 6 to 8 years of the transformation of structures, a relatively closed formula appropriate to the new power relations has come about in which the positions "tracked out" by the socialist countries have been taken by the most developed countries of the Third World.

In the past few years, the Central East European socialist states have changed de facto or de jure their political priority system, and they have put as their first goal the effort to bring about economic equilibrium. The goals which express real economic interests are set forth in a series of party and state documents, but the economic policy based on an export offensive toward the capitalist markets has not led up to now to the expected results, and in fact the imbalance has increased.

At the end of the 1960's, the thinking and forecasts in Poland, the CSSR, and Hungary counted on an increase in the role of commodity and money categories on the CEMA markets. These expectations proved later to be too optimistic. Today it is also evident that in the key country of the community, the Soviet Union, a change similar to Hungary's over the short and medium perspective cannot be expected because of the difference in characteristics. The small countries, particularly the CSSR and Poland, are sensitive to the good and the bad Hungarian experiences. A stimulation of the intertwining of the four countries would correspond essentially to the territorially reduced version of the 1968 Hungarian CEMA concept.

In the new CEMA model, the change in the cooperation and accounting relations between the regions is not unconditionally necessary. The internal relations of the focal points would develop according to the interests of a given part of the cooperation. In the Central East European group the first step should be taken in the direction of coordinating foreign economic relations and the realization of joint measures. To do this, however, the indispensable first step is to bring into harmony the internal national evaluation system (price and exchange rate).

In general, when discussing and approving ideas that depart from the usual, the question of initiative and representation is extremely important. Many are pessimistic about the area of mobility of the Hungarian party and state and about the initiative possibilities. I am convinced that in the given situation, which is difficult not only in the economic sense, it is not the dimensions of the party and the state that are essential but the existence of a unified, ready concept that reflects reality. We need to strive to work out such a concept, and it should be represented as an initiative at the highest level.

FOOTNOTES

1. Source [1], as well as my own calculations on basis of the CEMA Year Book.
2. The disintegration is strikingly manifested in the concealed or open incentive to capitalist export to the detriment of socialist export and in the strong competitive war of CEMA member states facing each other on the world market.
3. See for example [4].
4. Academician Bogomolov referred to this at the most recent Soviet-Hungarian conference of economists, 23-28 October 1979.
5. Hungarian CEMA research in our decade has pointed out the weaknesses of the accounting system conducted in the transferable ruble.

6. The supporters of the so-called letter of credit method desire to realize the introduction of convertibility (the mobilization of the assets) without burdening the debtor states. In this assumed system they would convert the transferable ruble demands not finally but temporarily into convertible foreign exchange, that is, the active country would receive a convertible loan corresponding in sum and repayment time to the demand from the organ operating the system. The system would show certain similarities to EPU practice. The CEMA countries or some of them would agree that they would make a deposit or availability at the NGEB [International Bank for Economic Cooperation] of a definite sum of convertible foreign exchange necessary for the operation of the system; that they would open a certain limit for one another (established purposefully in percentage of quota imports); the NGEB would extend in convertible foreign exchange to the country with the transferable ruble demand an interest-free loan equal to the demand or proportional in volume and time [Source 13, page 26]. The accounting system itself would remain essentially unchanged (the creditors would extend credit as before in transferable rubles, and the debtors would owe their debts in the same currency). "The only change would be that the creditor's ruble demand would entitle him to have access to foreign exchange availability from the NGEB by placing the deposit" [Source 13, page 27]. The charge would arise only in connection with the availability formation.

According to another idea, the NGEB, as a clearing center, would calculate at year's end how much the individual member states owe to the clearing center, or how much is their demand on the NGEB as from the whole of the participating states. The debtors would pay a certain portion of their debts in gold or convertible foreign exchange. The ratio of the balance being conducted in gold or convertible foreign exchange rises gradually until the demands or the debts become convergible in their entirety.

7. In the internal economic mechanisms of "early times," the administrative element dominated, and this was then taken over by indirect regulators. Here a parallel is evident between the development of the internal systems and the integration mechanism! According to this line of thought, the administrative elements must dominate in the first phase of integration. That is, the solution is clear: it is in the establishment of an integrational financial mechanism that has obligatory force on all member countries, speaks a bit for the future, and is strictly to be observed. Every member state will carry out the requirements in the interest of the world system, and these requirements automatically form the internal system, the mechanism. In the coming period the cooperation mechanisms will (can) precede the internal ones, and thus the demand will (may be) the development of the latter. The development is constant on both sides, only the rate keeps changing, depending on the development of which side shows a more progressive direction.
8. See for example [10]
9. Most recently Adam Zwas raised the question of the convertibility of Eastern currencies in connection with the problems of East-West trade (see KREDIT UND KAPITAL, 1979 No 1.)

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6691

CSO: 2500

WAGE, EMPLOYMENT DEVELOPMENTS IN FIRST HALF OF 1980 LISTED

Prague PRACE A MZDA in Czech No 10, 1980 pp 556-559

[Article by Engr Jiri Fremr, Federal Statistical Office]

[Text] Table 1. Number of Workers and Average Wages in the Main Sectors during the First Half of 1980

A	Odsázel (obor činnosti)	B	Průměrný evidenční počet pracovníků (bez žen na mateřské dovolené)	C		F	Prů- měrná mzda v Kčs (na tisících osob)	G	
				Přídělek; úbytek (—) proti 1. pololetí 1979				Přídělek; proti 1. pololetí 1979	
				abs. D	%			abs.	v %
1	Soc. sektor národního hospodářství (bez JZD)	6 523 729	61 811	1,0	2590	51	2,0		
2	z toho:								
3	Průmysl celkem	2 632 190	19 933	0,8	2723	57	2,1		
4	z toho plánovací sku- piny:								
5	těžba uhlí	167 133	1 709	1,0	2781	62	2,2		
6	Výroba tepla a elek- triny	69 857	1 477	2,2	2958	72	2,5		
7	hutnictví železa	151 513	710	0,5	3094	75	2,5		
8	chemický průmysl	126 529	843	0,7	2792	91	3,4		
9	gumárenský průmysl	36 508	366	1,0	2678	69	2,3		
10	strojírenství	980 741	9 001	0,9	2741	45	1,7		
11	průmysl staveb. hmot	111 700	515	0,5	2728	62	2,3		
12	dřevozpracující prům.	115 459	1 353	1,2	2481	49	2,0		
13	prům. skla a keramiky	84 659	491	0,6	2386	57	2,4		
14	textilní průmysl	214 265	1 043	0,5	2249	68	3,1		
15	konfekční průmysl	54 196	61	0,1	2256	95	4,4		
16	kůže, obuv, kožedělný	83 198	139	0,2	2508	24	1,0		
17	potravinářský prům.	211 433	717	0,3	2416	45	1,9		
18	Stavebnictví	551 528	1 745	0,3	2835	42	1,5		
19	Projektové organizace	50 366	1 469	3,0	3183	30	1,0		
20	Státní statky	157 598	-1 301	-0,8	2488	54	2,2		
21	Státní leas	91 807	-475	-0,5	2708	59	2,2		
22	Železniční doprava	205 899	219	0,1	3087	62	2,0		
23	Automobilová doprava	101 520	949	0,9	2890	56	2,0		
24	Spoje	118 122	1 619	1,4	2360	45	1,9		
25	Maholabou	229 397	4 196	1,9	2094	46	2,2		
26	Veřejné stravování	153 664	2 356	1,6	1999	41	2,1		
27	Komunální podniky	128 341	602	0,5	2182	29	1,4		
28	Školství	402 057	7 668	1,9	2397	71	3,1		
29	Zdravotnictví	301 188	6 172	2,1	2440	68	2,4		

[Key on following page]

Key:

- A. Sector (field of activity)
- B. Average number of workers (excluding women on maternity leave)
- C. Increment; loss in comparison with the 1st half of 1979
- D. Absolute
- E. In percent
- F. Average wage in Kcs (per person)
- G. Increment in comparison with the 1st half of 1979
- 1. Socialist sector of the national economy (excluding JZD's)
- 2. of which
- 3. Industry total
- 4. of which planning groups
- 5. coal production
- 6. heat and electric power production
- 7. metallurgy
- 8. chemical industry
- 9. rubber industry
- 10. engineering
- 11. construction materials industry
- 12. wood processing industry
- 13. glass and ceramics industry
- 14. textile industry
- 15. garment industry
- 16. leather, shoes, furs
- 17. food industry
- 18. Construction
- 19. Planning organizations
- 20. State farms
- 21. State forests
- 22. Railroad transportation
- 23. Automobile transportation
- 24. Communications
- 25. Retail store sector
- 26. Communal feeding
- 27. Communal enterprises
- 28. Education
- 29. Health

The Czechoslovak social sector of the national economy (excluding JZD's) employed 6,524 million persons in the first half of 1980. This is an increase of 62,000 persons (1 percent) over the same period of 1979. In the Czech Socialist Republic the number of workers increased by 31,000 (0.7 percent) to a total of 4.624 million and in the Slovak Socialist Republic the increase was also 31,000, which represents a 1.7 percent growth. There were 1,900 million persons employed in this sector in Slovakia. From the above figure on the CSSR, 6.465 million workers were employed by organizations included in the state plan. This is an increase of 0.9 percent over last year. It is 0.2 percent more than anticipated in the 1980 state plan.

Faster growth of manpower was registered especially in the nonproduction sphere, i.e., in education and health. In most of production branches the number of workers

developed in accordance with the plan. Because of an effort to control the number of technical-economic workers (THP) and managers and administrators, their increments have been sharply reduced in comparison with previous years. As far as industrial activity of industrial enterprises is concerned, the numbers of technical-economic personnel has increased during the 1st half of 1980 by only 0.3 percent (whereas the number of workers during the same period increased by 0.7 percent), in the construction sector by 0.5 percent, in state farms by 0.8 percent, in the forestry sector by 0.5 percent and in railroad transportation by 0.2 percent. A relatively high increase in technical-economic personnel has been witnessed in communications (by 3.3 percent) which is in sharp contrast to the reduction in the main category of this sector, namely, operating and servicing personnel by 0.5 percent.

Table 2. Structure of Average Monthly Wage in the Main Production Sectors and Index of Labor Productivity Growth in Industry and Construction in the First Half of 1980

Oblasti (obor činnosti)	B Průměrná měsíční mzda v Kčs					Index ¹⁾ produktivity práce	
	A	C celková		D v tom			
		E absolutně	F index ¹⁾	G základní mzdy vč. příplatků a náhrad	H průměr a odměny a náklady		I fond odměn
Průmysl celkem z toho plánovací ak- piny:	2723	102,1	2171	449	103	103,2	
těžba uhlí	3781	102,2	2912	690	179	99,2	
výr. tepla a elektřiny	2956	102,5	2424	392	140	105,9	
hutnictví železa	3094	102,5	2463	497	144	99,3	
chemický průmysl	2792	103,4	2233	459	100	104,4	
gumárenský průmysl	2678	102,3	2081	540	57	105,1	
strojírenství	2741	101,7	2217	436	88	103,9	
průmysl staveb. hmot	2726	102,3	2222	413	91	106,6	
dřevozpracující prům.	2451	102,0	1927	444	80	105,4	
průmysl skla a keram.	2386	102,4	1908	376	102	104,4	
textilní průmysl	2249	103,1	1753	441	55	103,9	
konfekční průmysl	2256	104,4	1812	382	62	103,5	
kůže, obuv, kožeděln.	2508	101,0	1949	472	87	102,6	
potravinářský průmysl	2416	101,9	1926	348	142	102,2	
Stavebnictví	2835	101,5	2373	383	79	102,9	
Projektové organizace	3183	101,0	2447	454	252	.	
Státní statky	2488	102,2	2199	167	122	.	
Státní lesy	2708	102,2	2169	398	141	.	
Železniční doprava	3087	102,0	2531	301	105	.	
Automobilová doprava	2890	102,0	2558	234	98	.	
Spoje	2360	101,9	1883	300	177	.	
Městoobslužba	2094	102,2	1803	186	105	.	
Všechné stravování	1999	102,1	1733	178	88	.	

- 1) Share of average wage in percent in the 1st half of 1980 and 1979
- 2) Share of labor productivity in percent in the 1st half of 1980 and 1979

Key:

A. Sector (field of activity)
B. Average monthly wage in Kčs

C. Overall
D. Includes

[Key continued on following page]

- | | |
|--|-----------------------------------|
| E. Gross | 9. construction material industry |
| F. Index | 10. wood processing industry |
| G. Basic wages, including supplementary wages and compensation | 11. glass and ceramics industry |
| H. Cost premiums and bonuses | 12. textile industry |
| I. Bonus fund | 13. garment industry |
| J. Labor productivity index | 14. leather, shoes, furs |
| 1. Industry total | 15. food industry |
| 2. of which planning groups | 16. Construction |
| 3. coal production | 17. Planning organizations |
| 4. heat and electric power production | 18. State farms |
| 5. metallurgy | 19. State forests |
| 6. chemical industry | 20. Railroad transportation |
| 7. rubber industry | 21. Automobile transportation |
| 8. engineering | 22. Communications |
| | 23. Retail store sector |
| | 24. Communal feeding |

In the first half of 1980, we paid in wages to workers in the socialist sector of the national economy (excluding the JZD's) a total of Kcs 101.4 billion, i.e., Kcs 2.9 billion (3 percent) more than during the same period of last year. In addition, Kcs 1.9 billion was spent on other personal costs.

The average monthly wage of workers in the socialist sector of the national economy (excluding the JZD's) increased in the first half of 1980 by Kcs 51 (2 percent) in comparison with the same period of last year, that is, to Kcs 2,590 which, because of the fact that in 1980 we worked 1 day less than last year, corresponds to the planned growth of the average wage for 1980 (2.2 percent excluding reserves for wage-political measures and 2.4 percent including these reserves). However, one should not overlook a regressive influence of the growth in the share of workers' disability by 0.4 percent on the evolution of the average wage. In the Czech Socialist Republic the average wage increased by Kcs 51 (2 percent) to Kcs 2,601; and in Slovakia by Kcs 53 (2.1 percent) to Kcs 2,565. In the JZD's the average wage, converted to the comparable gross wage, grew by 1.7 percent, or approximately Kcs 2,620.

In the individual sectors the largest increase in average wage was registered by the enterprises of the garment industry, namely, by 4.4 percent. Overall, the average wage increased by 2.1 percent to Kcs 2,723, which is less than the planned growth for 1980 (2.2 percent). However, if converted to a comparable number of days, the annual planned growth was overfulfilled by 0.5 percent. The 3.2 percent labor productivity growth exceeds the 1980 plan by 0.4 percent. In the construction sector the average wage increased by only 1.5 percent to Kcs 2,835 (the 1980 growth plan called for 2.5 percent). This was the result of a slower labor productivity growth (2.9 percent actual growth vs 4.1 percent planned for 1980).

In the nonproduction sector, a higher growth of average wages (by 3.1 percent) was achieved in education. This was the result of a wage and salary reform which became effective on 1 September 1979. In the health sector which, too, was subject to a wage and salary reform effective 1 September 1979, the average wage increased by 2.4 percent. The lower wages in education and health are to be improved by the second part of the wage and salary reform effective 1 September 1980, which is expected to sharply increase the average wage in the 2 sectors next year.

The comparison of the growth of average wages by categories of workers is being influenced by the different number of workdays in the first halves of 1979 and 1980. While the indices of the evolution of average wages of employees are definitely reduced (by approximately 0.8 percent) as a consequence of the fact that during the first half of 1980 there was one less workday than in the same period of 1979, the indices of the evolution of the average wages of technical-economic personnel are not affected. Consequently, when prorated to a comparable number of days, there has been a faster growth in the average wages of manual workers in most sectors.

The ratio in basic wages shows a permanent decline in favor of premiums and bonuses. In comparison with the first half of 1979, this ratio shows a decrease in industry from 80.5 percent to 79.7 percent and in construction from 84.5 percent to 83.7 percent.

Economic organizations reported in the first half of 1980, in relation to the fulfillment of approved indices of wage scales, an overall savings on wages and other payroll expenses (MOON) in the amount of Kcs 751 million, i.e. 0.9 percent of their usable volume. The usable MOON was exceeded by 349 economic organizations in the total amount of Kcs 292 million.

Table 3. Number and Average Wages of Workers and Technical-Economic Personnel in the Main Activity of Production Sectors in the First Half of 1980

odvětví (obor činnosti) A	B Dělníci			C Technickoobslužní pracovníci		
	průměrný evidenční počet D	prům. měrná mzda v Kčs	index ¹⁾	průměrný evidenční počet D	prům. měrná mzda v Kčs	index ¹⁾
1 Průmysl celkem 2 z toho plánovací skupiny:	1 804 848	2668	102,2	529 902	3048	102,4
3 těžba uhlí	122 851	3840	102,2	20 818	4459	101,3
4 výř. tepla a elektřiny	42 936	2884	102,6	15 655	3234	103,0
5 hutnictví železa	109 967	3075	102,7	26 821	3562	101,9
6 chemický průmysl	72 849	2777	103,6	25 092	3254	104,0
7 gumárenský průmysl	25 628	2643	102,1	6 129	2946	102,6
8 strojírenství	624 059	2705	101,8	247 272	2926	101,6
9 průmysl staveb, hmot.	79 678	2684	102,1	22 387	3066	104,0
10 dřevozpracující prům.	86 647	2377	101,7	18 138	2910	104,0
11 prům. skla a keramiky	64 266	2296	102,3	12 808	2898	103,2
12 textilní průmysl	165 506	2144	103,2	30 504	2866	103,7
13 konfekční průmysl	42 486	2168	104,7	7 830	2767	104,4
14 kůže, obuv, kožedělný	64 038	2415	100,7	11 086	3083	102,7
15 potravinářský průmysl	154 237	2348	101,8	39 334	2836	104,0
16 Stavebnictví	300 476	2819	101,3	95 762	3150	101,9
17 Státní statky	127 473	2456	102,5	22 368	2898	101,2
18 Státní lesy	60 663	2578	102,4	20 751	3123	101,5
19 Železniční doprava ²⁾	62 498	3608	101,3	46 973	3116	103,9
20 Automobilová doprava	58 093	2792	101,6	16 395	2771	103,8
21 Spoj ²⁾	65 243	2022	102,8	24 567	3052	101,6

1) Share of average wage in the first halves of 1980 and 1979 in percent

2) Instead of workers, operating and servicing personnel are listed

[Key on following page]

Key:

- | | |
|---------------------------------------|---------------------------------|
| A. Branch (field of activity) | 10. wood processing industry |
| B. Workers | 11. glass and ceramics industry |
| C. Technical-economic personnel | 12. textile industry |
| D. Average number registered | 13. garment industry |
| E. Average wage in Kcs | 14. leather, shoes, furs |
| 1. Industry total | 15. food industry |
| 2. of which planning groups | 16. Construction |
| 3. coal production | 17. State farms |
| 4. heat and electric power production | 18. State forests |
| 5. metallurgy | 19. Railroad transportation |
| 6. chemical industry | 20. Automobile transportation |
| 7. rubber industry | 21. Communications |
| 8. engineering | |
| 9. construction materials industry | |

1277

CSO: 2400

ASSEMBLY DISCUSSES, URGES INTENSIVE ELECTRONICS DEVELOPMENTS

Prague HOSPODARSKE NOVINY in Czech 7 Nov 80 pp 8-9

[Article by Miroslav Kana and Zdenek Skoda]

[Text] Deputies of the People's Assembly devoted 21 October to an analysis of the situation in the field of electrical engineering or, rather, the sector of electronics. Main interest was focussed on resolving chronological, qualitative and quantitative inconsistency between the needs of the national economy and its current potential for supporting development of the sector, to include internal resources of the sector itself. It was also occasioned by the historical development of the sector, which has not always fully responded to the signals of worldwide trends and timely warnings as well as requirements ensuing from resolutions of top organs of the party and the government.

The minister of electrical industry, who has held his post only since the beginning of the current year, briefed the deputies for the second time this year on the situation in his sector, and, this time, also on the intentions of the ministry's leading personnel. Regrettably, not even now can they be considered a concept which is systematically intertwined with the possibilities offered by our resources. This coordination is yet to be accomplished. Only the complexity of economic problems in the national economy served to bring out the great hidden resources for its development which electronics, and primarily microelectronics, unquestionably has at its disposal.

The deputies' debate was characterized by a recurrent argument regarding the importance of development of electronics. While numerous experiences, reasons and calculations from abroad were quoted, less was quoted from domestic sources. It appears that qualified domestic analyses simply are not available for the same reason that they had to be sought elsewhere; namely, that we must start waking up to the fact that electronics is not just a passing fad, but a condition sine qua non for further progress. This was amply substantiated by the minister for technical and investment development of the CSSR, Engr Ladislav Supka, at the conclusion of the debate when he elaborated on international specialization.

Committees

Deputy Alois Hula, as vice chairman of the People's Assembly and chairman of the Committee for Industry, Transportation and Commerce, outlined in his report the research done by deputies and the intentions of the committees of the People's Assembly. He stated in his report that evaluation of the degree of industrial advance of countries shifted from such indices as per capita steel production to indices representing applications of electronics, and familiarized the plenum with the work, standpoints and recommendations of the committees.

The Committee for Industry and Commerce stated that a reliable flow of information from basic research to production has not been fully implemented as yet. The committee therefore recommends experimental formation of several production research associations.

The committee also recommends:

- doing away with obligatory ordering a specified minimum number of a variety of spare parts,
- providing dependable spare parts catalogs--to include parts newly scheduled for production so that designers could include them with a time-lead in new manufactures,
- substantial shortening of the submission term for orders, in particular as regards spare parts listed in the catalog,
- designating unequivocal replacement of discontinued types by new products,
- expedient supplying of samples of advanced electronic parts for equipment and instrumentation being developed,
- systematically implementing use of standardized modules in junctions and units of electronic installations.

The planning and budgetary committee finds that 1,500 digital computers at our disposal is relatively little in comparison with the worldwide average, particularly in the area of minicomputers, modern reading devices and recorders, and that we also have a low share of data prepared on a decentralized basis and fed into computer centers through communication networks.

It recommends joint utilization of the technology of computer centers to facilitate improved utilization. As regards provisions incorporated into the Set of Measures for Improving the Planned Management System of the National Economy after 1980, it is envisioned that by a suitable normative adaptation they could be assigned certain duties and obligations relevant to utilization of computer technology, or, as the case may be, formation of automated systems of management and streamlining of information systems.

The Committee for Agriculture and Food points out that overall streamlining of existing projects and programs of automated systems of management must be implemented in such a manner as to be of more service to personnel responsible for direct management of production. The committee's consultations with deputies led to the conclusion that a number of existing regulations regarding the information system is heading for a conflict with implementation of an automated system of management on a scale encompassing the entire sector.

The committee stated that there still is no management post with gesce ad hoc coordination project management for application of microprocessor technology in agricultural machinery production. It recommends therefore delegation of this function to the Research Institute for Agricultural Machinery in Prague-Chodov.

The Committee for Social Policy is unequivocally in favor of introducing electronics into health care on as wide a scale as possible. Health care in the CSSR is recognized worldwide as high quality care. It is of prime interest to our citizens that it be not only maintained at that level, but improved also by the use of electronic health equipment.

The Cultural Committee concentrated its attention on the educational and instructional system of scholastic and extrascholastic training, as well as the information and popularization system headed by the press and other mass communication media. Available experience indicates that development and utilization of electronics finds on the whole favorable public acceptance.

The Constitutional Law Committee emphasized that an appropriate role in management and development of electronics must be played also by our legal system, primarily by economic law, as one of the instruments of planned management of the national economy. The committee emphasized that the basis for guaranteeing supplies for production of electronic equipment, as well as that for guaranteeing deliveries of the latter, must be included in the planning process. It is necessary to apply for this purpose a new decree regarding balancing of material resources and allocations and negotiation of supply and demand relations in the planning process.

Furthermore, it will be necessary to pay particular attention to protection of the so-called intellectual property, inasfar as it involves results of solutions incorporated into the proposed automated system of management, in the basic and applied computer software.

For the purpose of effectively protecting the fund of available information, to include protection of undisclosed facts from outside interference, it is recommended to duly consider whether and to what extent it will be necessary to modify or supplement the economic and legal framework relating to products of the Federal Ministry of Electrical Industry, which do not fall into the sector of electronics, except products from the sphere of regulations applicable to machinery production and subject them to a new system of legal implementing regulations for electronic products. It is also recommended that there be timely reaction in the legal sphere in coping with newly arising problems.

The Armed Services and Security Committee dealt with the tasks of Svazarm (Svaz pro spolupraci s armadou-Union for Cooperation with the Army) relative to bringing up the young generation.

The Foreign Affairs Committee stated that production increases and replacement of strenuous and harmful labor by automation and electronic systems is fully compatible with the interests of the socialist society.

The committees spoke out in favor of a conspicuous increase in the rate of technical development in the sphere of electronics in the Seventh Five-Year Plan by concentration of manpower and resources.

Deputies

Priority of Concepts

The first to speak out in the debate was Deputy Frantisek Tesar, doctor of social science. He pointed out that we have failed to make systematic advances in automation and electronization to achieve higher production and saving of materials and energy. It is imperative that electronic production be increased and its applications expanded in a stepped up and systematic manner and, where needed, changes in personnel should be made. Less effective products in the production program should be replaced by products for which there is more demand, and which work more flexibly, including those made through license arrangements. He spoke out in favor of systematically centralized decisionmaking where conceptual problems are concerned, and proposed formation of production research associations.

Grasping the Dynamic Concept

Deputy Pavol Urban pointed out that what is involved is not merely catching up with or providing materials. What is involved is creation of realistic conditions that would enable us to keep up with worldwide dynamic development in all spheres of the national economy. It will be a well-planned installment for effecting future significant social savings and improved reliability of products. It is necessary to find an optimum interface of technical, investment and foreign currency policy so that by the end of the Seventh Five-Year Plan we attain a 70-80 percent share of new component parts. This rightly justifies the consideration of an effective combination of research with licensing policy under the usual conditions of fast return on capital and attainment of a corresponding effect in production, as well as development with minimum demand for brand new investments, even though a marked preference is envisioned in comparison with the dynamics considered for machinery production sectors. It is imperative that other sectors (e.g., metallurgy and chemistry) also closely follow the needs of the electronic industry and be capable of meeting them.

Consumer Electronics

Deputy Drahomira Cao... d that today we meet the demands of the national economy for electron... 77 percent through domestic production, and by 23 percent through im... e shows that it is impossible to meet the entire assortment of needs wic... international division of labor.

The most widely used product... consumer electronics in our households are black-and-white TV sets. A motive for further purchases of TV sets will be primarily replacement of black-and-white sets by color sets--in 70 percent of all cases.

However, the prerequisite is an affordable price and improved reliability (the same applies to tape recorders). Products of consumer electronics lag behind as regards equipment with advanced elements that improve their utility value, not only for the domestic market but also for profit realized from export prices obtained. In this context she also recommended production of microwave ovens that save energy, time and nutrients in food.

Making Progress in the Use of Computer Technology

This was the topic of a contribution by Deputy Richard Tichy of the Planning and Budgetary Committee.

According to data regarding utilization of our computer technology, the residual value of which amounts to almost Kcs 11 billion, utilization of digital computer time does amount to 90 percent of capacity in two-shift operation, but productive utilization amounts to only 67.5 percent. Peripheral equipment also is not adequately utilized and introduction of new computers into operation is time-consuming. Considerable fluctuation also adversely affects utilization of technology. It is therefore desirable to consolidate regulations and the bonus system.

From the viewpoint of computer technology applications it will also be important to attain a technical level of this technology and supplemental equipment that would allow formation of better integrated systems and an organizationally, technically and programmatically intertwined computer network.

Integration of Efforts

In reference to the positive results obtained through cooperation of ministerial and plant-based research and development basis with facilities of the Czechoslovak and Slovak Academies of Sciences as well as institutions of higher learning, Deputy Rudolf Chlad substantiated the possibilities opened up by formation of production research associations (which is an expansion of the concept of socialist expeditor teams). "It will be necessary," he said, "that they take over in all technically complex cases also the production of prototypes, eventually even production of duplicates. We consider this as one of the most effective forms of substantially shortening the cycle of research--development--production."

The level of parts production in the 60s was satisfactory. With increased requirements on technology that situation changed. Only concentration on such sectors in which we can implement innovative processes together with specialization can form the basis for deriving benefit from the utilitarian function of the cycle of research--development--production. Proper balancing of proportions between the industrial bases of consumer, investment, metrological, laboratory, health and computer electronics ought to become the focal point of management and coordination functions of the ministry departments. In addition, the same will apply to closely following also sectors supplying the requisite materials, even though (or just because) in small quantities (material savings, not large volumes!).

The following argumentation is interesting: In comparison with other CEMA countries, the USSR developed and passed international tests of a total of 44 technical devices for the Uniform System of Electronic Computers, which represents 23 percent of the total number of devices developed and tested in CEMA. However, imports of these devices exceed our exports by almost 90 percent. Deputy Chlad set the following decisive goals:

- come closer to the worldwide peak standard
- deepen division of labor in CEMA
- achieve low production cost and effective exports
- effect substantial time savings in the cycle between research and mass production.

Computer Technology in Agriculture

Deputy Engr Frantisek Exner stated that 1,840 Unified Agricultural Cooperatives and state farms (of a total number of 1,945) are connected into the automated system of socioeconomic information. However, linkage is lagging in regards to analytical needs of agricultural enterprises and their statistical and accounting reporting system, and also the automated systems of management have not been reconciled with the organizational structure of the enterprises. Work started on some promising experiments with integrating the flow of information which, given the spatial distribution of agricultural enterprises, is one of the key tasks for more efficient utilization of information technology in management.

No Fear of Technology

Deputy Engr Josef Martinec assured that changes caused by invasion of electronics into the life of society will bring only positive results in our socialist system. Electronics helps eliminate undesirable effects of assembly-line production and promotes utilization of human creativity. Intelligence of data processing machines is no substitute for human intelligence. Technotronics is not an alternative of socialism.

Hi-fi

Deputy Jan Risko, PhD, advocated doing away with the dependence of communications, particularly broadcasting technology, on imports from nonsocialist countries, from the first link of the chain (studio technology) all the way to the receiver. Appliances of the receiver type are capable of absorbing a significant part of the buying power of the populace.

Medicine

Deputy Zdenek Machacek, M.Pharm., cited examples of electronics applications in the operations of the Research Institute for Health Technology in Brno, the Research Institute for Medical Bionics in Bratislava and some plants in Chirana and Tesla of Valasske Mezirici. He expressed his concern over delays in introduction of some already developed medical equipment into production, particularly as it involves apparatus that offer attractive possibilities for exports.

Training of Specialists

Deputy Engineer Ondrej Saling commented that institutes of higher learning do turn out capable engineers, but that the latter are unwilling to cope with problems of personnel management in production facilities. In addition, colleges and universities turn out fewer engineers than are needed in the field, and those who have been trained do not go directly to a job in production. He suggested that some measures be taken to provide students with basic familiarization with realistic circumstances of cooperation with partners in direct production assignments.

Training of Cadres

Deputy Vlasta Kohoutova pointed out the necessity for preparing people for the social consequences of electrification of the national economy, i.e., finding timely solutions to mobility of manpower into new jobs without affecting their life style, training a new generation of workers and specialists with culturally based higher degrees of qualification and seeking to effect manpower savings through application of electronics. Technical personnel will be expected to be able to cope with the overlapping of all branches of science, yet attain a high degree of specialization.

Utility Value of Agricultural Production

Deputy Engr Imrich Janec illustrated the contributions made by computers to improved productivity by citing actual examples from management of the Czechoslovak animal stock. He also outlined potential applications for electronics in plant production.

Legal Aspects

Deputy Ludmila Dvorakova stated: In the sphere of economic law there appears a need for relatively extensive modifications of implementing regulations in the field of economic laws without, however, in view of the specificity of the sector of electronics, having to change or supplement the law. This will obviously require first of all that the Federal Ministry of Electrical Industry issue for the sector of electronics basic conditions for supply of products, further conditions for supply of assembled equipment and, finally, conditions for supply of work and services.

A relatively serious problem which definitely will have to be dealt with is the fact that to date we have no regulation governing conditions for performance of services. Demands on the Czechoslovak legal system will keep increasing also in regard to the requirement that imported machinery and equipment conform to Czechoslovak regulations. The reason why in the given sector some general legal regulation obviously would not suffice is to be seen primarily in the turbulent technical development that characterizes the sector of electronics, as well as in the distinct peculiarities that differentiate this sector from classical machine production.

Defense

An inquiry by Deputy Tichy--how will computer technology be used in the system of the Set of Measures--was answered by CSSR Finance Minister Engineer Leopold Ler.

The Government Committee for Problems of Planned Management of the National Economy requested Comrades Supka, Hula, Kazimour and Bahyl in September 1980 to submit to the government a concept for implementation of automated systems of management during the years of the Seventh Five-Year Plan. CSSR Government resolution No 42/1980, which approved the Set of Measures, further specified the key directions for utilization of computer technology during implementation of the Set of Measures:

The first direction is completion of the automated system of planning calculations with the use of mathematical and economic methods and computer technology so as to facilitate a more systematic balancing, inner coherence and, primarily, flexible approach planning.

The second direction points to comprehensive utilization of automated management in supply-demand relations with the goal of rendering accounting functions more efficient and facilitating control of economic contracts and the distribution system.

The third direction leads to utilization of automated information systems for successive evaluation and monitoring of the efficiency of the economic renewal process as a whole, thus helping to uncover unused resources in the direction of intensifying the development of our economy.

Nevertheless, the decisive direction for utilization of computer technology will be installation of automated systems for the control of production and technological processes.

The ministers submitted to the governmental committee a concept for implementation of automated systems of management for the period of the Seventh Five-Year Plan, which the committee discussed by late September and recommended for consideration by the government. To visualize the scope let it suffice to say that approximately Kcs 15 billion worth of new computer equipment should become operational during the Seventh Five-Year Plan, of which over 500 are computers of the Uniform System of Electronic Computers and almost 1,500 are units from the System of Microelectronic Computers. The plans call for more computers. But there will be neither adequate production nor resources available for providing a larger amount. Computer technology after 1980 will be implemented within the framework of the plant's development funds, which must be formed by generation of internal resources. We recommend to the government that it issue directives relevant to parameters for utilization of computer technology, i.e., operation in two shifts with twelve working hours of productive work to fully attain these parameters in the second year after the computers have been put into operation.

The inquiry by Deputy Tesar--what significance will economic integration with CEMA countries have for development of electronics in the Seventh Five-Year Plan--was answered by the CSSR minister for technical and investment development, Engineer Ladislav Supka.

He specified the effects of pacts negotiated in the Permanent Committee of the Board for Technical and Electronic Industry and bilateral pacts between the board's member countries on our trade relations. After 1980 will come implementation of long-term goal-oriented programs for cooperation till 1990 to secure acquisition of technological equipment for the electrical industry, an automated system for control of technical processes, equipment for computer technology, communications engineering and consumer goods.

Suitable conditions will also have to be created for implementation of a specialization program in the development of the Uniform System of Communication Engineering Equipment. We are interested in negotiating pacts regarding specialization in the production of production-control instrumentation, for diagnosing and servicing color TV sets and sound recording and reproduction systems. Specialization will also help us to economically delineate the program for radar, computer technology, control, automation and health equipment and electron lithography.

Minister Supka further responded to an inquiry by Deputy Chlad--what measures are being taken to assure concentration of the Czechoslovak scientific research base on key tasks in development of technology.

Of the total noninvestment appropriations from the state plan of technical development for the Sixth Five-Year Plan in the amount of Kcs 22 billion, almost Kcs 4.5 billion are expenditures for tasks providing for development of electronics to include direct applications in the national economy, amounting to 20 percent. Allocations for these tasks at the same time included almost one-third of the total volume of foreign exchange resources controlled by the Federal Ministry for Technical and Investment Development in the Sixth Five-Year Plan. These allocations went for imports of instrumentation and final assembly imports. An analogous situation prevails also in the area of license acquisition where Kcs 200 million was expended for electronic developments in the Sixth Five-Year Plan, whereas the total value of licensing agreements exceeds Kcs 650 million, which in the Seventh Five-Year Plan, will still represent approximately 30 percent of licensing allocations. At the same time negotiations are under way for additional licenses, for which another Kcs 150 million worth of foreign currency will be set aside in the Seventh Five-Year Plan.

In the Seventh Five-Year Plan, more than one-quarter of the total number of 350 tasks will be oriented toward the development of electronics, to include direct application and development of auxiliary and special materials for microelectronics. Tackling these tasks will call for more than Kcs 8 billion in noninvestment appropriations.

It is incongruous to assume that development of microelectronics could or should be backed solely by the electrical industry from its own resources. For that reason the Presidium of the CSSR Government adopted on 4 September resolution No 197 designed to provide primarily small-volume supplies of special and auxiliary materials from the jurisdictions of the Federal Ministry of Metallurgy and Heavy Engineering, the Federal Ministry of General Engineering and both national ministries of industry. A number of tasks are the subject of concentrated efforts of several institutes and plants from the various branches and sectors, without reorganization, but with planned management. Markedly beneficial results were achieved in shortening time limits.

The CSSR minister of the electrical industry, Professor Engy Milan Kubat, DrSci then expressed his thanks for the depth of research and briefly commented on some of the points referred to by the deputies.

The priority of electronics and microelectronics is differentiated for the next five-year plan in such a manner that heavy current engineering will develop at a rate of approximately 135 percent, consumer electronics has been allocated 155 percent, electronic parts 181 percent, and integrated circuits 246 percent. The state goal-oriented program Electronics in the SSR, encompassing exclusively microelectronics, the rate is a full 310 percent.

We agree with the proposal made by the Committee for Industry, Transportation and Commerce regarding elimination of subjective obstacles, the kind that start with dependable catalogs of available parts and end with samples of advanced new types and use of modular assembly. We second the formation of joint scientific production facilities. We are establishing just such a facility, e.g., with the Institute of Instrumentation Technology of the Czechoslovak Academy of Sciences with our Tesla plant in Brno. We heartily welcome the fact that the Slovak Academy of Sciences is establishing a scientific production facility out of its Institute of Technical Cybernetics in Bratislava and fully support the venture. We are about to sign an agreement regarding cooperation with the Czechoslovak Academy of Sciences. We are very much in agreement with the necessity for international cooperation and strive to develop it. We shall endeavor to delete certain groups of parts from our own production.

As regards tape recorders: We increased their production from 90,000 to 100,000, but we cannot replace the 40,000 units for our domestic market which were to be supplied by Poland. Thus it is obvious that in specific cases matters have to be handled with some forethought and carefully and that things often tend to become complicated.

In regards to the failure rate of color TV sets: In the current year we suspended production of our color TV set Tesla Color Fatra. We are switching to several types of new color TV sets. These include the color TV set Color Universal, a fully transistorized new type with a Soviet picture tube, and a color TV set assembled from Yugoslav components. This year and even more so next year will start production of TV sets of an entirely new design with picture tube Color 110 produced under a license arrangement. This year we shall deliver around 20,000 of these color TV sets of the new type. Next year they will be available in substantially larger numbers. Their price has not been set as yet, but, considering their completeness and degree of difficulty in manufacture, it can be estimated to range between Kcs 10,000-20,000.

A microwave oven in a typical household would not completely eliminate the traditional ways of using heat in food preparation and would be expensive. Thus, e.g., in Great Britain its price ranges between 300 to 500 pounds sterling. We are looking into the matter and as soon as it becomes a viable option we shall introduce it ourselves or in international cooperation.

Great attention is paid to the development of health-care instrumentation, specifically monitoring instruments, x-ray and dental equipment. Artificial kidneys, artificial hearts, and implantable cardiostimulators will also be developed. I regret having to say that, for the present, neither we nor anyone else in CEMA has the necessary batteries required for the last enumerated devices.

Resolution

The reporter, Vice Chairman of the People's Assembly Deputy Alois Hula, summed up the results of the debate and Deputy Richard Nejezchled, Dr.Soc.Sci., submitted to the deputies a proposal for a resolution in which the assembly, among other things, to further a systematic implementation of the resolutions of the 15th CPCZ Congress for the development of electronics recommends to the Federal Ministry of Electrical Industry and to other involved ministries, and state, economic and social organs and organizations:

- create systematic conditions for comprehensive development of electronics and its wider application in all spheres of the national economy and the life of our society;
- devise suitable organizational forms for providing a continuous flow of information from basic research via applied research into production; achieving in this manner a closer interface between the scientific research base and production and acceleration of the cycle of research--production--application, and in the interest of an accelerated and more streamlined development of electronics stimulate the activity of work teams in research institutes and production plants;
- meet the wide needs of the national economy for electronic products by further deepening our participation in international division of labor;
- make more effective and more expedient use of purchased licenses;
- provide for improving the reliability of electronic products and high dynamism of innovations;
- systematically endeavor to lower production costs;
- pay increased attention to training of specialists for the field of electronics and their placement in sectors for which they acquired qualifications;
- popularize on a wider basis the significance of electronics among our public, particularly among youth.

It enjoins:

- committees of the People's Assembly to provide systematic help in carrying out the program for development of electronics and its practical applications;
- the deputies of the People's Assembly to help through political and organizational work in their voting districts to carry out the tasks set by the CPCZ Central Committee and the CSSR Government for the development of electronics and elucidate its significance to the society as a whole.

The resolution was adopted.

8204

CSO: 2400

ALTERNATIVES FOR FOREIGN ECONOMIC RELATIONS DISCUSSED

Budapest KULGAZDASAG in Hungarian No 12, Dec 80 pp 3-20

[Article by Marton Tardos, main department head, Business and Market Research Institute: "Foreign Economic Alternative"]

[Text] External and internal factors combined to produce the problems which have appeared in the course of economic development. Following the price explosion the conditions for the foreign economic contacts of Hungary clearly deteriorated and the new situation demanded changes in economic policy. The measures born to remedy the foreign trade balance deficit brought some improvement in 1979-1980. Seeking ways to bridge over the difficulties, economic growth was moderated; this appeared primarily in cutting back on investments and socialist imports and in stagnation of the standard of living.

In the opinion of the author there is need for an increasingly export oriented economic policy, in addition to a slower growth than earlier in domestic use; changes in demand control methods, the price and rate of exchange system and the investment mechanism can lead to this.

Internal and Foreign Economic Causes of the Economic Tensions

The difficult economic situation of the country and the unbalanced capitalist foreign trade turnover have been in the center of attention of economists and economic policy makers for a long time. The phenomenon causing concern is that since the world market price explosion use has exceeded the value of products available from internal sources. We covered the difference with credits. Since 1947 the value of the credit used has varied between 4 and 9 percent of the added value (GDP). We assumed the great majority of the credits on the non-socialist market. So the acute sickness is capitalist indebtedness.

Before we discuss the possibilities of curing the disease we must go into the causes producing the phenomenon. It is customary to point to the general causes of the overuse in the changing world economic epoch, more concretely in the price explosion which accompanied it. To the question "What is this price explosion?" it is customary to answer that the prices of raw materials have increased suddenly as compared to those of industrial finished products. But if we look more closely at the long-range price trends we see that the fundamental price ratio deviations since 1973 have been caused by the nearly eight-fold increase in the price of petroleum. Changes in other prices did not deviate very much from the approximate 2.5 times price increase for industrial finished products which took place since then.

Thus the price explosion cannot be used to explain directly, or it explains to only a slight degree, the deterioration in capitalist terms of trade and the indebtedness of the country. It is true that in the 1960's Hungary gradually shifted to importing fuels and thus the increase in the price of petroleum and other fuels represents no small burden for the country. But this economic burden does not appear in connection with the capitalist countries and so it does not explain the necessity to assume credits largely on the capitalist markets.

When examining the tensions of the capitalist market position of the country one must not forget that this is not a new problem. Even in the 1950's and 1960's the development of the capitalist balance of payments was a neuralgic area for the economy of the country. The accumulation of difficulties was caused not only by the deterioration in the terms of foreign trade. In my view this was the joint effect of external and internal factors. Of the external factors one must first note three.

1. First of all the crisis in the export of live animals and meat, primarily slaughter cattle, which traditionally play a leading role in the capitalist export of the country. The export of slaughter cattle played a leading role in the economic relations of Hungary and the more developed countries not only in the Middle Ages but also in the flowering of east-west relations reckoned from the end of the 1950's. The export of live animals and meat reached a peak in 1973 when it made up 27.8 percent of the non-socialist export. While the volume of capitalist export increased by 44.3 percent between 1973 and 1979 the export of live animals and meat fell to 13-14 percent of the turnover due to the discriminating policy of the Common Market. The decline in trade was the consequence not only of quantitative restrictions on export but also of the fact that the world market prices for meat lagged behind not only the increase in oil prices but also the price increases for industrial products; the dollar prices for Hungarian slaughter cattle export did not increase at all.

2. The second unfavorable phenomenon was that Hungarian enterprises on the western markets were not forced to or were not capable of adapting effectively to the general swift inflation and the simultaneously sharpening competition struggle, by swiftly increasing export prices or holding back the increase in import prices. As a result of the oil crisis every country on the world market which pays with industrial finished products for the import of fuels was forced not only to cut back on internal use and react with increased energy conservation but also was forced to increase its export of industrial finished products. The logical consequence of a decreasing increase in demand and a swiftly developing supply was a sharpening of the competition struggle. In addition it was unfavorable for us that there was simultaneously an unfavorable effect on outside countries as a result of the duty concessions offered to developing countries and the members of the Common Market. This was moderated to only a modest degree by the fact that in 1978 the United States ended its previous discrimination against us and granted Hungary most favored nation status.

3. Finally, simultaneous with the price explosion, there was an essential change in the development of economic contacts between Hungary and the CEMA countries, including Hungarian-Soviet economic contacts. Between 1945 and 1972 it was characteristic of this trade--with slight variations--that the country's supply of industrial

raw materials was guaranteed substantially without interruption and with favorable conditions. In general we bought materials on which little work had been done in exchange for industrial finished products. It was characteristic of our opportunities that between 1960 and 1972 the volume of our raw material purchases for transferable rubles increased by an annual 9.2 percent, almost twice as fast as the added value produced domestically. Since 1975 not only has CEMA raw material acquisition become more expensive but also the rate of increase in deliveries has broken. Despite the significant increase in prices the acquisition possibility for industrial raw materials purchased with transferable rubles remained more favorable than capitalist purchase. But between 1972 and 1979 the volume of imports increased by only an annual 2 percent. This change made necessary the acquisition of industrial raw materials for free foreign exchange. In the course of this we were forced to buy many raw materials, primarily petroleum, from our CEMA partners for free foreign exchange. The substantial rate decrease in raw material purchases for transferable rubles moderated the possibility of Hungarian export to the capitalist market also. It should be noted that more than one third of the export of Hungary, a country poor in raw materials, consisted of semi-finished products made directly from raw materials coming from the CEMA market.

Several erroneous actions of internal economic policy magnified the unfavorable effects originating from the external market. In this regard we must speak primarily of two factors.

1. It is now generally recognized that it was a mistake to relieve Hungarian enterprises of the burden of changes in external market prices, more precisely changes in price ratios. But the mistake was not a chance phenomenon. In explaining it one must not forget that the new economic mechanism was not prepared for changes in external conditions. It is even more important, however, that at the time of the changes there was not yet an end to the social pressure against the indirect regulator system, pressure which attacked the differentiation of incomes and the usefulness of the clash of individual and group interests. This debate did not reject the earlier decisions to liquidate the plan directive system but it forced the economic leadership to make compromises as a result of which the changing world market situation did not produce variations in enterprise incomes and the consequences of the deteriorating economic situation did not appear in the development of investments or the development of the standard of living.

In those cases where domestic prices remained unchanged the ripple effect of world market inflation was prevented by giving price supports for imports and imposing taxes to decrease export incomes. This form of sparing producing enterprises was characteristic primarily in 1974. But the neutralization of changes in foreign market prices continued even after 1975 when state controlled prices were gradually adjusted to world market prices. In every case, simultaneous with the price changes, there was a systematic review of the system of taxes and supports. The elements of the regulator system were constantly modified so that the domestic prices and price ratios would not change as much as the world market prices. The practical result of this was that the financial success of the enterprises did not depend on whether they could pass on to their customers the costs corresponding to the new world market situation. The subject of the deal between price and regulator was primarily the size of the state refund connected with export and the permitted rate of increase in officially controlled domestic prices. This deal not only generally held back the efforts of the enterprises to improve efficiency but it also

concretely increased the deterioration in the foreign trade terms of trade. It is obvious that despite their best intentions the Hungarian producing and foreign trade enterprises, in the warmth of state interventions, were not the equal protagonists of their capitalist partners, exposed to merciless competition; their efforts to hold back increases in import prices and to increase export prices were not overwhelming.

2. The other factor which magnified the unfavorable effect of the external shocks was that we did not follow events adequately in controlling internal use. In my opinion, however, in opposition to the frequently voiced view, we need not complain about over-consumption. There was a serious error in the area of consumption by the populace only in 1974 when, in the heat of the political debate over economic guidance, the incomes of the populace increased a good bit faster than the added value, especially if we subtract from the latter the losses due to the deterioration in the terms of trade.

Table 1. The Development of Added Value (GDP) in billions of forints

I. táblázat

A hozzáadott érték (GDP) alakulása
(milliárd forint)

	1972	1973	1974	1975	1976	1977	1978	1979
Hozzáadott érték összesen; (1)	391,0	429,0	448,9	481,5	527,6	577,9	628,3	681,1
változatlan áron (1970 = 100) (2)	112,7	120,5	127,5	135,5	140,3	151,0	157,7	161,8
Behozatali (-), illetve kiviteli (+) többlet (3)	+ 4,8	+ 19,6	- 19,9	- 35,6	- 22,4	- 20,1	- 57,3	- 23,7
Behozatali (-), illetve kiviteli (+) többlet a hozzáadott érték százalékában (4)	+ 1,2	+ 4,6	- 4,4	- 7,4	- 4,2	- 4,5	- 9,1	- 3,5
Veszteség a cserearányromlás miatt (5)	- 2,3	- 4,0	- 14,3	- 26,1	- 25,7	- 34,9	- 36,9	- 43,7
A behozatali többlet és a veszteség különbsége: (3) + (5) (6)	+ 7,1	+ 23,6	- 5,6	- 9,5	+ 3,3	+ 8,8	- 20,4	+ 20,0
Tényleges belföldi felhasználás összesen: (1) - (3) (7)	386,2	409,4	468,8	517,1	550,0	604,0	685,6	704,8
Tényleges belföldi felhasználás változatlan áron (1970 = 100), (8)	108,5	111,3	123,3	131,9	134,7	143,0	155,4	148,4
ebből: végső fogyasztás (9)	109,0	113,2	120,5	126,1	128,7	134,4	140,5	144,6
bruttó felhalmozás, ezen belül: (10)	106,9	107,2	131,8	145,3	148,2	162,5	191,6	164,1
üzembehelyezett beruházás (11)	112,3	119,2	118,8	149,2	142,2	146,7	160,1	165,9

Forrás: Statisztikai évkönyvek, A népgazdaság hatékonyságának alakulása 1970-1978, KSH, 1980, Budapest.

[Key on following page]

Key:

1. Added value, total
2. At unchanged prices (1970 equals 100)
3. Import (-) or export (+) surplus
4. Import (-) or export (+) surplus in percent of added value
5. Deficit due to deterioration in terms of trade
6. Difference between import surplus and deficit (items 3 and 5)
7. Actual domestic use, total (items 1 and 3)
8. Actual domestic use at unchanged prices (1970 equals 100)
9. Of this, ultimate consumption
10. Of this, gross accumulation
11. Of the latter, investments placed in operation

Source: Statistical yearbooks, "The Development of the Efficiency of the National Economy, 1970-1978," Central Statistics Office, Budapest, 1980

What we might talk about instead is excessive accumulation due to an unfounded desire for growth. Unfortunately, until 1979, the great majority of the excessive use was embodied not in operational investments which would bring profit in the near future but rather in an increase in stockpiles and uncompleted investments. It should also be noted that investments measured in unchanged prices show the magnitude of expenditures but not the real value of the projects placed into operation, according to the experience of operational experts which cannot be expressed in figures. The latter increased substantially less, which is to say efficiency deteriorated. It becomes clear from the foregoing that one cannot prove the assertion that the bulk of the excessive use was popular income which was unjustified as compared to the capacity of our economy. Unfortunately, neither can one say that thanks to investments which will be put into operation later the excessive use will significantly ease our situation in the future. In all certainty a large part of the excessive use was the result of deteriorating efficiency as a result of the cited indecisiveness of guidance.

The Character of the Foreign Trade Deficit

The next question in the diagnosis is the character of our indebtedness which developed due to the cited external and internal causes. What we must clear up is whether our difficulties are connected with the fact that production cannot catch up with the increase in use, that is, the available manpower, capacity, etc. do not make possible an increase in production fast enough to gradually make up the deficit, or whether what is involved is a peculiar deficit, namely that we cannot pay on the capitalist market for a part of our demand for goods which for the time being cannot be satisfied from domestic production and the transferable ruble markets. A determination of the character of the indebtedness is very essential from the viewpoint of therapy. If the first case obtains then a one-time reduction in internal use of 5-6 percent will solve the problem if the later increase in use does not exceed the increase in production. If, however, the second characterization is closer to the truth then not only must we reckon that a substantially greater reduction in consumption will be necessary to temporarily achieve a balance but also that it will not open the road to further development if we "tighten the belt" according to the magnitude of the excessive use.

In this case internal use will have to be moderated not only until the foreign trade balance is temporarily balanced--reducing stockpiles and with temporary shortages of goods--but rather we must moderate import use on a permanent basis to ensure a supplement to the temporary improvement factors, or rather we must increase the volume of goods which can be sold and made available for export. But even this would not be enough. What we must then achieve is to see that the increase which develops after the balance is restored should not come into conflict with the balance requirements of the balance of payments. According to the experience of recent years the difficulties which arise on the free foreign exchange markets and on the ruble accounting market characteristically differ from one another. On the free foreign exchange markets the difficulty derives from the fact that it is very difficult to hold back the capitalist import demand of the populace and the producing apparatus. And every incentive method used thus far has proven unsuitable to produce a lasting acceleration in the growth of capitalist export. The situation is radically different on the transferable ruble market. The supply of goods offered by the partners automatically puts a limit on increasing our purchases. There are products we would gladly buy more of, but there is no additional supply, while frequently there is no domestic demand for products offered by our partners. Sometimes purchases from CEMA partners run into difficulties even if the partner could deliver goods sought in Hungary. Because of the length of the delivery times of CEMA exporters, the lack of delivery security and fears about the problems which frequently appear in operating the mechanical equipment purchased the domestic customer often prefers capitalist import even if it is much more expensive. In the case of export conducted in transferable rubles we strive to export only the prescribed quantity and will deliver no more, in order that our sales on CEMA markets do not exceed the magnitude defined by the expected level of import.

These experiences prove convincingly that the bottleneck for the development of the Hungarian economy is free foreign exchange export activity and import replacement activity. This characteristic of development leading to the indebtedness of the country is not a new phenomenon. We still face this phenomenon now, a phenomenon which figures even in party and government resolutions formulated in the years 1966-1968. Domestic production has still not adapted adequately to demand, so it cannot adequately replace import and, especially, it cannot satisfy the demands of the capitalist markets, which are substantially more demanding than the domestic market. We cannot cover internal use from internal resources not because of general limits on production or because of the exhaustion of production factors but rather because domestic demand requires in greater proportion goods which we cannot produce or the import of which we cannot cover with sufficient Hungarian goods.

The indirect economic guidance introduced in 1968 eased this problem but--probably in part because of the compromises made in the course of its realization the improvement in our ability to adapt did not offer enough help for us to respond to the world economic conditions which deteriorated in the meantime.

A Proposal for Treating the Economic Ills

A solution to the tensions which have developed could be approached in several ways. Ferenc Kozma, for example, recommends cutting back capitalist market contacts. He justifies his position by the fact that the monopoly organization of the capitalist markets does not make it possible for outsiders to develop their trade on the basis of the comparative advantages. The leading industrial countries ruling on

the capitalist market get such a large part of the advantages deriving from trade in the form of shares that, in his opinion, outsiders should withdraw from the international division of labor. He goes so far as to regard the deterioration in the foreign trade terms of trade and the indebtedness as the consequence of trade which became excessive.¹ Earlier, from a similar starting point, he proposed that we should react to the former by developing closer cooperation with the CEMA countries.² Regardless of whether we completely accept or regard as exaggerated Ferenc Kozma's statements about the power relationships of the capitalist world market and the economic consequences deriving therefrom, we must admit the reasonableness of the proposal. To the extent that the CEMA countries increase their offering of goods which are sought in Hungary and can be acquired there advantageously we must exploit this opportunity. In addition, it is also certain that even today there are cases where, due to the faults of the financial system, enterprises insensitive to costs unjustly prefer capitalist acquisition to the CEMA offerings. Unfortunately, however, we also know that only a swift expansion of trade among CEMA countries would make possible a substantial change and this would require changes in the system of contacts among member countries which cannot be expected in the middle range. A mechanism for the successful development of processing industry product exchange has not yet come into being. The system of contacts which developed in earlier decades, basically built on raw material deliveries by the Soviet Union, cannot be developed because the growth rate for raw material extraction is slowing in the Soviet Union. It will be fortunate if a profound structural transformation of CEMA foreign trade does not have a disintegrating effect among the member countries. Despite our efforts, we cannot expect--in the next 4-5 years--that CEMA trade will succeed in replacing a significant part of the capitalist contacts which have developed. It was probably on the basis of a recognition of this fact that Ferenc Kozma, in the article cited, did not link his proposal to cut back capitalist foreign trade with a development of CEMA trade. He put the emphasis on cutting back imports, while adding that this could not mean a return to autarky. Unfortunately, however, while expressing these correct thoughts he did not adequately clarify what he meant by cutting back foreign trade. This can be imagined in only two ways, by increasing domestic activity to take the place of imports or by forcing consumers to an irrational substitution for the increasing shortage of import goods. Both procedures would provoke serious contradictions. The first would make necessary a giving up of the advantages accompanying an increase in the mass nature of production--frequently emphasized, perhaps exaggeratedly, even by Kozma. The second would endanger the successful satisfaction of consumer needs.

Measures to Restore the Balance

It cannot be denied that if non-competitive import products become more expensive for a country and thus the foreign trade terms of trade deteriorate--as has happened for us--then there must be a review of and a change in the method and magnitude of fitting into the international division of labor. There is a need for a restructuring of foreign trade turnover even if we judge that the monopoly income of the capitalists hinders the realization of Hungarian creativity and productivity on the capitalist markets and even if we see a fundamental obstacle to an increase in effective export in the fact that the producing apparatus has not adapted adequately to the needs of the capitalist market.

Following the price explosion the conditions for the foreign economic contacts of Hungary really did deteriorate fundamentally and probably this process is not yet at an end. The link between the capitalist export goods base and the growth in social production broke down, because of the crisis in the slaughter cattle market and the decreasing growth rate for Soviet raw material deliveries. The already unfavorable situation will deteriorate further because Soviet raw material deliveries probably will not increase after 1980, which will result not only in holding back an increase in the capitalist export of Hungary but also in creating supplementary free foreign exchange import needs.

The change is causing real shocks in fuels, more precisely in the use of petroleum. The swift spread of petroleum began in Hungary in the recent past--with a significant delay according to opinions at the time. In 1960 hydrocarbons--primarily petroleum--made up one fifth of the fuel sources. The increase in hydrocarbon use was swift thereafter, primarily as a result of Soviet petroleum and then natural gas deliveries, to which the twenty-fold increase in domestic natural gas production contributed.

This trend was broken by the world market price increase for petroleum. The price of supplementary energy sources increased substantially more quickly in Hungary than in the world in general. In 1960 the energy needs could be covered from Soviet petroleum, in addition to domestic petroleum and natural gas production. By the end of the 1960's the petroleum, costing 16 rubles (640 forints) per ton, still covered our import needs. In 1979 we bought supplementary petroleum for 138.6 dollars per ton (5,088 forints). This nearly eight-fold price increase exceeded the average rate of the declining value of the forint 5.3 times. During this long period the increase in petroleum prices on the world market, an increase with "rocket speed," exceeded average price increases only 2.9 times. The shock affecting Hungary--despite our efforts--brought only slow changes. The inertia of development proved so strong that the ratio of hydrocarbons in domestic energy sources, which had developed to about 64 percent earlier, did not decrease even in 1979. Albeit that, because of the increasing price of petroleum, we use our new and most modern power plants only during peak loads of the electric power system.

The effect holding back import acquisitions, of the changes affecting the foreign trade balance unfavorably, was stronger than the above. In the 1960's a one percent increase in production volume was accompanied by a 2-3 percent increase in capitalist import volume. Between 1975 and 1979, although there were significant variations, this ratio fell below one percent. The ruble import increase needed to increase production decreased from a magnitude of 2 percent to 1.3 percent. So even thus far the Hungarian economy has changed its behavior in regard to foreign markets to no insignificant degree. It has moderated the rate of development of contacts with CEMA countries and directly decreased the division of labor with dollar relationship markets. All this, however, was too little to achieve a balance.

We achieved real results in the area of restoring the balance only in 1979-1980. The 25.4 percent decrease in net accumulation in 1979 was followed by stagnation at a low level in 1980. Both years were characterized primarily by a moderation in uncompleted investments and in stockpiles. After the consumers price increases of July 1979 real wages decreased palpably and total consumption by the populace hardly increased. Simultaneous with these "belt tightening" measures the balance of capitalist foreign trade substantially improved. The deficit decreased significantly in 1979 and in 1980 export-import turnover came essentially into balance.

The chief factors in the change thus were:

- a moderation in economic growth;
- a very significant cutback in investments;
- causing the standard of living to stagnate;
- reducing stockpiles;
- adequate regulation of the bilateral balance for socialist export; and
- a limitation on capitalist imports with enterprise consensus, that is, the enterprises, recognizing the serious situation of the national economy and the higher intentions, moderated their capitalist import orders.³

Table 2. The Development of Volume Imports

Az import volumenének alakulása					2. táblázat	
(1) Évek	(2) A hozzáadott érték GDP	(3) Rubel-import (éves növekedés)	(4) Dollár-import (éves növekedés)	(5) Import rugalmaság ²	Rubel	Dollár
1960—1972 ¹	105,1	106,1	107,9	188,5	154,9	
1970—1972 ¹	104,0	105,0	106,6	123,0	140,0	
1970—1975	105,2	107,8	103,6	130,0	72,0	
1971—1976	104,8	105,0	103,0	104,2	62,5	
1972—1977	105,0	106,2	105,8	124,0	116,0	
1973—1978	104,6	107,1	106,0	154,3	173,9	
1974—1979	104,1	105,2	103,3	126,8	80,4	
Trendérték ³						
1963—1967				202,2	279,3	
1968—1972				162,7	182,9	
1973—1979				130,4	93,8	

¹ Az import szocialista, nem szocialista beszállásból áll.

² A hozzáadott érték egy százalékos növekedéséhez szükséges importnövekedés arányában.

³ Az évtizedes átlagos évi növekedés geometriai átlaga.

Forrás: Statisztikai évkönyvek, Külkereskedelmi évkönyvek.

Key:

1. Years
2. Added value, GDP
3. Ruble imports, annual growth
4. Dollar imports, annual growth
5. Import flexibility, rubles and dollars

Footnotes to Table 2:

1. Imports are broken down by socialist and non-socialist.
2. The import growth, in percent, needed for a one percent increase in added value.
3. Trend values, the geometric average of growth every 5 years.

Source: Statistical yearbooks, foreign trade yearbooks.

Paths for a Lasting Solution

The decrease recommended by Ferenc Kozma in the role played by import in economic growth has actually taken place. But the problem is still not solved because all of the trends which have developed promise only a short term improvement. The question to which we must continue to seek an answer is what new course of economic development will make possible a longer term balancing of import and export and what rate of growth and what combination of import replacement and export growth should we realize. We should also think about what limits are acceptable in limiting demand and in assuming additional credit.

A lasting change can be caused only by accelerating capitalist export activity and import replacement. We need an expansive production growth which exceeds the increase in internal use, which will be slower than earlier, so that the surplus will serve to reduce the tension in the capitalist balance of payments. The emphasis should not be placed on decreasing the rate of growth in production, and thus moderating import, but rather, on the contrary, on doing everything in the interest of increasing efficient production, in addition to a modest growth in internal demand.

From this viewpoint two basic requirements must be met in parallel: 1. domestic and CEMA market demand must be kept lower than the production possibilities; and, 2. the enterprises must be constantly forced to efficiently exploit the production possibilities. It is obvious that the two requirements must be realized together. If only the first is realized then we will reduce capitalist import needs by limiting economic capacity and the standard of living but this will not create a lasting foreign exchange balance. If we meet only the second requirement then we must reckon with a definite deterioration in the capitalist balance of payments because the increase in import requirements will be accompanied by a neglect of capitalist export markets because of the difficult marketing conditions.

The joint execution of the two tasks would not be facilitated even if preferences between the two goals could be unambiguously determined. At first approach it seems that it would be safer to concentrate on realization of the first task because carrying it out would unambiguously improve the situation which developed earlier. But this is true to only a limited extent. The tactic of cutting back the standard of living not only contradicts the long range of goals of economic development but it could also come into conflict, beyond certain limits, with the shorter range requirements of the foreign exchange balance. A replacing of capitalist import and an increase in capitalist export can be lastingly achieved only if the increasing accomplishments are honored with increasing real wages. Not to speak of the fact that dissatisfaction with the standard of living and the development of wages--as many examples show--can cause troubles in production which can result unstoppably in a serious and sudden deterioration in the foreign exchange balance.

Question Marks in the Development of a Proper Economic Policy⁴

Every element of the Hungarian economic guidance system must serve the economic policy conception which is developed. If we seek in foreign trade theory for a position to solve this task then we can stumble across a simple answer.

The balance of payments deficit is the consequence of an undervaluation of free foreign exchanges and an overvaluation of domestic means of payment. So we must increase the price of the resource in short supply--in this case free foreign exchanges--and thus the values of foreign exchange receipts and expenditures will increase. This will increase the export incentive of the enterprises and their interest in serving imports or in replacing imports with domestic production.

According to the experiences of modern capitalist society the measure recommended above does not have an immediate effect but is realized only after a rather long delay and it is effective only when and as long as the limits on domestic demand make it possible for producers to neutralize the increased import costs by increasing their sales prices and only as long as the customers are willing to accept a domestic price level which increases more quickly than the increase in export receipts and import prices.⁵

So we should not wonder at the fact that a country struggling with many payments difficulties will have a problem with the realization of advice which seems so simple. Not rarely the measure is ineffective in the period immediately following devaluation of the domestic currency. And over the longer run, when the favorable change would appear, the government is not capable of holding back demand. So it happens that the devaluation is not followed by an improvement in the balance of payments but rather by an increase in inflation.

Instead of accepting without debate a therapy which seems simple at first approach but which is difficult to carry out, according to the experiences of some countries trying devaluation, let us look systematically at a few important elements of the economic regulation modified in 1980 from the view point of a policy concentrating on increasing export and replacing imports: 1. the control of demand; 2. the price and rate of exchange mechanism connected with foreign trade; and 3. the allocation of investment assets.

Questions of Demand Control

The above analysis shows clearly that the domestic producing apparatus would face tasks of qualitatively different difficulty if it wanted to sell its products on capitalist markets, and on free foreign exchange markets therein, instead of domestic or socialist export markets. It is also obvious that it would not be worth while to assume these additional difficulties for a modest increase in receipts. Empirical econometric studies as well as immediate enterprise experiences seem to prove that that principle of the price system which operated up to 1979 according to which capitalist export receipts should be greater than those of domestic and socialist sales did not give incentive for the development of free foreign exchange export.⁶ So Hungarian industrial enterprises try to achieve successes on the capitalist market only if they are forced to do so. What was the chief method of coercion up to now which resulted in the fact that between 1972 and 1979 the volume of export of machines to non-socialist markets increased by 13.9 percent per year and that of consumer articles by 7.6 percent which meant an average annual export increase of 10.0 percent for the processing industry and remained only 0.3 percent below the increase achieved in the years 1960-1972 under easier conditions of competition?⁷ We feel that the coercive force can be found primarily in two factors: first in the fact that in awarding economic and financial preferences (developmental

credit, capitalist machine purchases) the central organs supported the capitalist export requirements. In the second place a general but in recent years an especially important viewpoint in the evaluation of enterprises by supervisory organs was how they planned capitalist export and how they carried out their plans. Despite the achievements we cannot be satisfied with this incentive method not only because we are forced to increase even more the not small growth rate of export but rather primarily because, in the first place, it can be successful only where and as long as capitalist export makes up a small part of production. In the second place, it does not encourage an increase in efficient export. The reason for this is that the enterprises take export into account as a tool for reaching some important goal--winning the recognition of the supervisory organs for success in export or expecting an opportunity to realize a modern investment. As long as the ratio of capitalist export is small in the total activity of the enterprise the result expected from export and the cost of export are comparable. In this case it is worth exporting even if the export is at a loss and one does not have to conserve in regard to the costs accompanying export.

But in the present situation of our economy we cannot be satisfied with this. By controlling the increase in domestic demand and in socialist export demand we want to create a form of economic coercion which will make it possible for capitalist export interest to be strong even where the ratio of the export is not insignificant, so that the goal of the enterprises should be not simply to increase export but rather to increase export efficiency and so that conservation with imports will accompany the export efforts.

Only a strong control of demand can meet this requirement. Here, as is well known, popular demand and producer demand are controlled separately. The successes in Planned regulation of popular incomes are rather unambiguous, if we ignore the side effects of wage control which hold back or distort economic incentive. Nominal wages and even the actual size of real wages follow the plans with great precision. So there is need for change in this regard because we need a method of aggregate income control which will be less of a hindrance to differentiation of wages according to individual performance and which will not divert the enterprises from their goal of increasing profits.⁸

The situation is much worse in connection with controlling producer demand. It is well known that the cyclic, unplanned variation in investments was not moderated even in the new economic mechanism.⁹ The ambitions of planning, striving to satisfy all needs and not successfully coordinated with the capacity of the economy, always proved stronger than the attempt aimed at harmonizing supply and demand. The investment cycle was also accompanied by a great variation in stockpiling.

The weaknesses in controlling producer demand caused harm not only because of the uncompleted investments and the variation in stockpiling but also led to more serious losses--the enterprises were not forced to conserve on their expenditures. This was reflected in poor utilization of fixed assets, in hiring superfluous manpower and in wasteful use of materials.

The magnitude of producer demand could and should be controlled with a fiscal and monetary policy coordinated with the availability of money in the economy. The greatest weakness of this proposal, which seems rational, is that it does not work without a hitch even in the capitalist economy, where it is widely used.

It has been shown that capitalist governments, with joint regulation of the issuing of money and budgetary expenditures, the so-called "fine-tuning," not only have not succeeded in avoiding the cyclic swings of the economy but also have started uncontrollable inflationary processes. In the leading capitalist countries, especially in the United States, the cause of the failure was that partial interests regularly interfered with the goals of the anti-cyclic policy which developed in the 1960's. The solvent demand flowing through monetary and budgetary channels had the effect of increasing production only with a great delay but it immediately increased inflation. The governments were forced to hold back the growth rate of production in order to hold back inflation and they tried to achieve this by cutting back the money supply and budgetary expenditures. But this intervention was neither swift nor determined because of the intervention of partial interests which hindered the *raison d'etat*. As a result of economic policy experiments which exceeded their strength there developed a phenomenon of the contemporary capitalist world economy, "stagflation," which means inflation accompanied by unemployment and unused capacity. One cannot conclude, from the failure of a coordinated monetary and budgetary policy in the capitalist countries and from the domestic experience that in neither the period of plan directive guidance nor in the period of indirect controls did we succeed in keeping demand in harmony with the capacity of the economy, that this cannot succeed in the future. The guiding organs in Hungary certainly have enough power for this. Success depends, on the one hand, on whether they are capable of giving priority to the harmony of the aggregate magnitude of supply and demand, as a fundamental economic policy requirement, as opposed to all other concrete developmental goals and, on the other hand, whether they are capable of creating in management those conditions which will not hinder flexible production decisions and price setting by the enterprises.

Demand regulation coordinated in a planned way with production possibilities and an appropriate price and rate of exchange policy (we will return to a discussion of this) will make it possible for conservation with imports--and especially with the import of materials and semi-finished goods--to be not simply the consequence of administrative coercion nor even the result of self-restraint by the enterprises decided upon by the enterprise leaders on the basis of the serious economic situation and higher intentions. Moderating imports with other than exclusively financial tools have very unfavorable consequences--and is unsatisfactory anyway when demand is not adequately controlled and when the price and rate of exchange system do not sufficiently encourage conservation. Even with the best limiting procedures it significantly reduces the ability of production to adapt to demand.¹⁰

The Price and Rate of Exchange Mechanism

The earlier price and rate of exchange system was modified in 1980. In this connection it was intended to realize two important and forward looking principles--the normativity of economic regulation and a flexible system of competitive prices.

The demands made of the modified system represent a great step forward from the price system announced in 1968, which followed the development of domestic costs and was not much influenced by the value judgments of customers, and especially from the practice developed after 1972, which was characterized by ad hoc changes in the regulators.

There has been too little time to evaluate the consistency of the practical realization of the new principles, the bureaucratic methods of price control and the successes of practice. But it seems justified to pose two questions already.

The first is: How great will the price difference, or rather the profit differentiation, be between products which can be sold successfully and those which are difficult to sell? We feel that the documents dealing with this take a correct position in that the price of goods sought after cannot be higher than the cost of the import and applicable duties. It is less clear what a product should cost when supply is greater than demand. According to the documents it is justified that there should be no profit for these products. On the basis of practice we can hypothesize that the announced differentiation of free prices will not be realized. But even the announced differentiation is not enough. It would be entirely justified that where the potential supply (that is, capacity) is greater than the production the price not only should not contain a profit but it should not necessarily even cover the constant costs. (This is justified in the case where the import price is lower than the total production cost.) If we are to realize a differentiation in the profitability of products of this magnitude--entirely justified economically--there will be need for a general development of the principles of the regulator system too.

To do this the obstacles must be removed for the fulfillment of two requirements. In the first place we must create conditions for the rational use of large profits. It is unjustified that large profits--especially temporarily large profits--should be accompanied by an automatic increase in the wage level. It also confuses management that the funds created by large profits should set off an increase in investment, independent of the efficiency of enterprise development possibilities. In the second place decreasing enterprise profit, or even loss, should not create temporarily a situation which is unacceptable from the viewpoint of management. Varying profits and temporary losses are normal concomitants of enterprise management. At present, however, as a consequence of the peculiarities of financial regulation, enterprises with decreasing profits or with temporary losses are immediately and automatically immobilized without state aid. Thus it is not a matter of convenience but rather the management system which keeps them from getting out of the threatened situation on their own. The other side of the phenomenon is that the state organs, even in the interest of not holding back enterprise independence, are forced to support a large number of enterprises when they judge the maintenance of production with deteriorating efficiency to be a lesser evil than the complete loss of capacity.

Naturally, the modification of regulation which is felt necessary would also create a basis for putting a brake on that force deriving from conservative human behavior which manifests itself in the attempt by state organs or certain representatives of them to use the coercive powers of the regulatory system to strengthen their own position against the enterprises, or when the enterprise leadership shies away from undertaking entrepreneurial risks.

There has been a debate in Hungary for a long time about the dual task of an active rate of exchange policy--to further the relative stability of the forint and to encourage a balancing of the foreign trade balance.

Defining the dual task is entirely national and necessary. It is just to protect against the importation of inflation with regular revaluation of the forint. At

the same time it is unjustified to presume that devaluation of the forint, or a slow revaluation of the forint against foreign exchanges rapidly losing their value--other factors remaining unchanged--which means a real devaluation of the forint, will result in an improvement of the foreign trade balance. That is, it is clear that if the import demand and export supply of the economy are inflexible then a devaluation of the rate of exchange of the forint can only result in increasing the price level and has no effect on trade.¹¹

But recognition of the above does not mean taking the position that the present rate of exchange of the forint is correctly established or that import demand and export supply are really as inflexible as some believe. I do not know the answer to these two very important questions and it is my feeling that others do not know it either at this time.

But if we are to be able to answer these questions and if the problem of devaluing or revaluing the forint is to arise as a realistic question two conditions must be met first. In the first place we must realize the policy discussed earlier of limiting demand in a planned way. Thus the determination of the rate of making money and credit available and a determination of the level of budgetary expenditures must be subordinated to the general requirements of demand regulation. We want to fix demand so that the producing units will be forced to increase capitalist export and import replacement in accordance with the efficiency criteria defined by the financial regulators (rate of exchange, interest rates, etc.). The effect of the CEMA market in siphoning off goods should be regulated as needed.

In the second place we must make possible a differentiation in the prices of individual products in accordance with supply and demand relationships, at least in the sphere of free prices.

We feel that after realization of these conditions we should be capable of approximating a rate of exchange for the forint which is useful according to the viewpoints of economic guidance.¹² It is obvious that we must move toward an ideal situation in which total domestic demand, developed in a planned manner, can be satisfied so that in the meantime the export-import balance develops in accordance with the requirements of the plan and the rate of exchange provides sufficient incentive for both export and import replacement. Thus export receipts would be determined solely by the product of the foreign exchange price and the rate of exchange, and domestic producers prices would not be higher than the value of the import price as increased by duties.

The present situation cannot be regarded as an acceptable approximation of the above ideal, not only because the export of the several products is not encouraged solely by the rate of exchange but also because: 1. we are creating solvent demand according to central plan ideas and are not suitably limiting total use, 2. state preference is given to export even where the enterprise would be forced to use its producing capacity via export even without supports, and, 3. a significant number of the prices, and just for less sought after articles, are higher than the import competition would justify.¹³

The change outlined above would elicit a significant transformation in the volume and structure of production and of export and import. Today, lacking experience, we have a picture only of the direction of the change, we cannot yet even estimate

the magnitude of the change. Among other things, we do not even know whether, after such a transformation, the commercial rate of exchange of the forint would be lower or higher than at present.

It is possible, however, that after the changes it would turn out that the export and the import replacement encouraged by the rate of exchange would not ensure the planned balance of the balance of payments--that export would not cover the foreign exchange costs of import. In this case there would be a real question as to whether it would be worth while to try to improve the balance of payments by a real devaluation of the forint.

It can be imagined that in such a case it would not be possible to keep the balance of payments in balance without administrative intervention, since the price flexibility of export supply and import demand proved too low. But only after the indicated transformation of the management system could we get an answer to the question of whether the price flexibility of export supply and import demand is too low, whether there is a rate of exchange which will ensure the desired balance of the balance of payments.¹⁴

The further question may arise as to what is to be done if we solve in a reassuring way the magnitude of the rate of exchange in the new modified system of management but must face the difficulty arising from the fact that inflation is swift abroad while we are able to hold the price level relatively stable. In such a case--deviating radically from current practice--it might be justified to systematically oppose the import of inflation by revaluating the forint. Now however, as long as the chief task is to solve the chronic tension in the balance of payments we must encourage export and import replacement with a planned control of domestic demand with greater differentiation of the profit realized in prices on the basis of efficiency. If all this proves too little then we should not shrink from a real devaluation of the forint.¹⁵

Enterprise Investments

Even today the great bulk of investment decisions by Hungarian enterprises start from the logical hypothesis that the size of the development will determine the efficiency of the development and the need for modern technology. The internal market by itself cannot ensure sufficient demand for modern production development. Accordingly, the international division of labor, including CEMA specialization, provides the precondition for efficient development. The importance of the latter is supported by the fact that the coordinated decisions of the planning organs of the CEMA countries offer a powerful and sure market for new products. The train of thought continues with the idea that production developed in this way aids the development of east-west economic contacts also. The newly built up large and modern capacity makes it possible for the CEMA countries--including Hungary--not only to sell their products on the markets of the developed capitalist countries but also to see domestic work realized more efficiently than before in capitalist trade.

This train of thought, impeccable from the viewpoint of closed economic logic, and the investment behavior which follows from it rest on two suppositions--first, that the products produced by the remnant capacity developed on the basis of CEMA

specialization really can be sold, and at a good price on the capitalist market and, second, that we can import, in return for the export developing as a result of the development and directed mainly at CEMA markets, products which are really needed, either because they replace capitalist imports or because they effectively supplement products which could be produced at home only at great expense.

Thus far, however, these suppositions have proven reliable only rarely. Without trying to be complete we can say that the successful realization of developments based on the above ideas has generally suffered because frequently the production capacity built to CEMA needs can be used for purposes of capitalist export only at the price of very great sacrifices, because of the differences in the requirements systems of the two markets. Most frequently the utilization of the new capacity for purposes of capitalist export has caused problems not when the capitalist market made higher demands in regard to the basic parameters of the product (performance, durability) but rather when the producer could not meet the demands of the market in regard to delivery times and punctuality or preparation and packaging. In the case of machines deficiencies in connection with ensuring untroubled operation and in the case of consumer articles deficiencies in connection with the presentation of the product contributed to these problems which came to the surface in the course of marketing. The delivery demands frequently made on capitalist markets as a precondition for sales are either not demanded by CEMA markets or they are prescribed at a lower level than the minimal capitalist market demands. The producer cannot deal with such a differentiation of demands. If there are different requirement levels from the viewpoint of the essential or supplementary properties of the product then this frequently endangers a large part of the advantages deriving from mass production. If one undertakes to fulfil the higher requirement level where this is not a primary requirement then, according to experience, one frequently assumes the risk that one cannot get the value of the extra service recognized in the price.

Another weakness of specialized production development is that frequently one cannot adequately satisfy domestic needs. Specialized producers not rarely ignore the special needs and requirements of the customers, in regard to variety and delivery times, among other things. Thus it is frequently not easy to talk the customer into satisfying his demand from the specialized production of CEMA.

On the basis of the above it is moot whether it was appropriate to use the investment strategy described here in the past but it is certain that as long as the capitalist balance of payments squeezes the Hungarian economy and as long as one cannot expect a sharp and effective turn in the direction of a more effective turn in the direction of a more effective consideration for customer interests in both CEMA contacts and the management systems of friendly countries just so long an investment trend built on CEMA specialization cannot be regarded as the chief line of development.

Our investment policy must be formulated starting from that idea which comrade Janos Kadar voiced at the 26 September 1980 session of the National Assembly in this way: "We cannot change the world economic conditions. We must live, work, progress and prosper amidst conditions which derive from the present situation."

In using the modest investment assets available under the coercion of circumstances we must realize an expansive economic policy which gives preference to the development of direct capitalist export and import replacement. We must strive to place

an ever broader range of our processing industry products on the capitalist market at a good price. In addition we must strive to see that the increase in production keeps a brake on capitalist import requirements.

Unfortunately it must be admitted that it is almost impossible to carry out large volume actions with "explosive success" either on the capitalist markets or in domestic import replacement developments. A gradual, evolutionary development based on existing capacity and production readiness has the greatest hope of success.

In addition to efficient large investments it would be useful to bring to the fore small developments which not only would pay off quickly but which would also elicit increased purposeful activity by the participants. Thus large industry must be persuaded to undertake effective developments of a new type aimed at export and import replacement, developments in which an efficient return on modest assets promises success even if a large market guaranteed by intergovernment agreements does not mitigate the developmental risk. This enterprise development strategy is unusual in the practice of domestic industry. In carrying it out one must frequently oppose the traditions developed over the past three decades. The enterprises must learn to carry out investments which serve to improve the capitalist foreign trade balance.

We must reckon with special difficulties in connection with the program initiated by the government to set up small enterprises. Among other things this program wants to give a green light to the creation of small cooperative enterprises, thus giving greater scope to private initiative. Modest undertakings which promise great results as compared to expenditures promise to be especially successful in the area of capitalist export and import replacement. But we must realize that if we want to enjoy the results of the developing cooperative and private undertakings then we must also assume the consequences of this. The small undertakings will undertake business activity promising significant achievements only if they can count on receipts greater than the average income. So when we are expecting much not only from the development of large state enterprises under the influence of economic coercion but also from the results of small undertakings we must consider the income distribution requirements of this. If the effect of small undertakings on income distribution provokes subsequent indignant counter-action this could make doubtful the positive effect of the program.

FOOTNOTES

1. Ferenc Kozma: "The Optimal Openness of the National Economy," KULGAZDASAG, November 1980.
2. Ferenc Kozma: "What is the Hungarian National Economy Capable Of?", Kossuth Publishers, 1978.
3. For the mechanism of import limitation with enterprise consensus, see Janos Gacs: "Import Limits, Shortage Phenomena and Enterprise Accomodation," Business and Market Research Institute, Budapest, 1980.
4. An article I wrote with Rezso Nyers discussed the general analysis of this question. Rezso Nyers and Marton Tardos: "What Sort of Economic Development Strategy Should We Undertake?" GAZDASAG, 1979, No 1.

5. Memorandum of professor Lord Kaldor: Appendices to the Minutes of Evidence Taken Before the Treasury and Civil Service Committee, July 1980; T.F. Cripps and W.A.H. Godley: "Control of Imports as a Means to Full Employment and the Expansion of World Trade; The UK's Case," Cambridge, JOURNAL OF ECONOMICS, September 1978; T. Wilson: "Effective Devaluation and Inflation," March 1976.
6. Andras Simon: "The Effect of Prices and Financial Tools on Export and Import," Business and Market Research Institute, Budapest, 1980.
7. The calculation pertains to the CEMA nomenclature machine and consumer article product groups.
8. In this connection, see the debate on wage controls in the 1979-1980 issues of KOZGAZDASAGI SZEMLE.
9. In this connection, see, K. Attila Soos: "Causes of Variations in Investments in the Hungarian Economy," KOZGAZDASAGI SZEMLE, 1975, No 1 and, Maria Lacko: "The Accumulation and Reduction of Tensions," KOZGAZDASAGI SZEMLE, 1980, No 7-8.
10. For the effect of limitations on import demand relying on self-restraint, see, Janos Gacs: "Import Limits, Shortage Phenomena and Enterprise Accomodation," Business and Market Research Institute, Budapest, 1980.
11. See the article by Richard Portes titled "Rate of Exchange Policy in Hungary between 1972 and 1976" in the volume titled "Economic Theory, East-West Contacts, the Hungarian and American Economies," edited by I. Dobozi and M. Simai, World Economic Scientific Council, Budapest, 1979.
12. In what follows we will discuss only the rate of exchange for free exchanges. The rigidity of CEMA fixed prices and the bilateral restrictions on trade pose problems in the value of the transferable ruble a discussion of which goes beyond the frameworks of this article. See Katalin Botos: "A Real Rate of Exchange for the Transferable Ruble," KOZGAZDASAGI SZEMLE, 1980, No 9.
13. See Marton Tardos: "Thoughts on the Role of Money," GAZDASAG (in preparation).
14. See Marton Tardos: Developmental Problems and the Commercial Rate of Exchange," KULGAZDASAG, 1980, No 6. We should also clarify whether the state fixed prices or limit prices or their delayed adjustment to market conditions might not put in motion subsequent distorting factors which would interfere with the effect of the valuation of the forint. (See T. Wolf: "External Inflation, the Balance of Trade and Resource Allocation in the Small Centrally Planned Economies," Smithsonian Institution, Washington, 1978.)
15. Some of the articles discussing the problems of an active rate of exchange policy take a stand for systematic devaluation without clarifying whether a cut-back in internal demand is really enough to suitably encourage export or import replacement. (Imre Tarafas: "Our Rate of Exchange Policy and Its Motives," FIGYELO, 2 Jul 80; Matyas Timar: "Our Rate of Exchange System in the Changed World Economic Situation," PENZUGYI SZEMLE, July 1980; Lajos Osvath: "The Valuation of Live Work," FIGYELO, 12 Nov 80.) Those who believe in a revaluation

of the forint slower than foreign inflation, that is in real devaluation, take the position, in my opinion without supporting data, that the expected costs of the export and import replacement increment will exceed the valid rate of exchange and they do not adequately clarify what the preconditions are for the stimulating effect of devaluation. (Gabor Oblath: "Hungarian Rate of Exchange Policy Alternatives," KULGAZDASAG, 1980, No 1; Werner Riecke: "Foreign Economic Balance and Rate of Exchange Policy," FIGYELŐ, 15 Oct 80.)

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EFFECT OF SECOND ECONOMY ON SOCIETY WEIGHED

Budapest TARSADALMI SZEMLE in Hungarian No 11, Nov 80 pp 40-47

[Article by Lajos Hethy: "The 'Second Economy'—Economy and Society"]

[Text] Alongside large socialist industrial production and its primary role of distribution, there is in our country a supplementary and unique type of production sphere distribution which sociological research calls "second" or "secondary economy." This concept became wide-spread in the past years, both in public and in political attitude. It is indisputable that the concept of the "secondary economy" encompasses many economic, social, and even political problems, the solution of which is urgent and significant from the viewpoint of both solving our present economic problems and our future economic and socialist social development. Thus the debate on these topics will not lose steam; on the contrary, it will gain momentum in our public and political life.

Economics, as is known, includes in this special sphere of production and distribution small-scale farming (including household plots), small private industry and trade, [single] family-housing construction, unlicensed and self-supporting services and other odd jobs (i.e., "maszekolas" [work in the private sector]), and any use of property or money outside the socialist sector. Many people consider, and quite justifiably also include incomes such as tips and "oiling money" as part of the "second economy". The recognition of the socio-economic (and at the same time, general social) significance of problems included in the generic term "second economy" is shown by the fact that, under the authority of party organs, sociological research [on this] has been underway for years. The tangible results of this research have been discussed by the party's Politburo which (although rejected the generic term) defined in its 19 February 1980 resolution numerous tasks to be carried out by society's leaders regarding the solution of individual problems.

Although the sociological research on the "second economy," and the public debate related to it, bring up actual and important economic and social problems, the concept itself has not been entirely clarified indeed, on the basis of our present knowledge, its scientific foundation and, especially, its social utility and whether it can be politically accommodated is strongly debatable. Apparently useful conceptions, worked out in the process of scientific analysis, often do not stand the test of public and political reason—even if they seem to be appropriate for research purposes.

Seen from the standpoint of economic science (and socio-economy), the common characteristics of the activities which are included in the "second economy" (or auxiliary economy, a more precise term used in the latest party resolution) are evident: their existence is based on the fact that the increased and more differentiated demands, obtaining from a higher living standard cannot be adequately and efficiently met by the large socialist enterprises, and thus these existing and socially accepted demands must be met by the small industry and individuals whose activity is directly influenced by the market.

The "second economy" seen from the sociological (and socio-political) aspect, we must admit that the common characteristics of its activities necessarily include that these activities fall outside the socialist sphere of authority, or are on its periphery; they fall outside economic and societal supervision and management. Their regulation and management is doubtful, to say the least; in some cases, they fall outside the limits of socialist law and legality, indeed, they sometimes even contradict socialist values and our society's moral requirements. The individual phenomena considered as part of the "secondary economy" alternatively correspond to at least one characteristic, sometimes to more than one.

(Only this way can household farming plots, legally accepted service activities, illegal "maszekolas," enterprise "fusizas" [work on one's own account, using the firm's materials] etc be included in a kind of conceptual classification. That the "second economy" is outside of socialist authority, regulation, legality, and even morality, is especially underlined by the fact that, although the volume is relatively insignificant, incomes from tips, "thank-you money," "oiling money" and bribing are included in it).

Although it is very difficult to trace the scientific, ideological, political and public origin of one or another concept, in the case of the "second economy," the critical characteristic of the concept is striking: it includes many phenomena and processes which are outside the main directions of our socialist development and which negate requisites that are considered important for our development (e.g., socialist ownership, legality, and moral values, etc).

At the same time, the exact (political) profile and direction of this critique remains undefined. For if we put household farming plots together with the extensive illegal "maszekolas" in the construction industry and with "oiling money" and judge them together, then we necessarily confuse justified criticism of certain phenomena that disregard our social values or deficiencies of our economic management with unfounded and dogmatic opposition to certain necessary, useful and justified social phenomena. Consequently, this concept (and the approximations included in it) equally de-orients both scientific and political clearheadedness; it puts under the same heading that which must be eliminated at all costs because it is intolerable according to our values and that which is a mistake to be corrected, and finally, that which we must maintain, strengthen and defend.

From the point of political action, the concept of the "second economy" is also misleading because it classifies as economic such phenomena which are mainly economic but which undoubtedly also have significant political and social connotations (e.g., household plots and moonlighting and second jobs), and others which do have an economic origin but are mainly connected with social values and

morale. In the case of the former, if political action is needed at all, it must have an economic character; in the latter case, however, this can hardly be limited to economic means. The concept of the "second economy" can put political action on the wrong track also because the individual phenomena that it defines prescribe political examination and intervention as an imperative necessity (e.g., the misuse of socialist property and the incomes originating from this practice in our economic life); in the case of others (e.g., household plots), a careless and unjustified political intervention would cause immeasurable losses to the national economy and to society.

Precisely because of this, it would be extremely dangerous for the party if it would select the concept of "second economy"--which is not adequately clarified scientifically and is burdened with ideological prejudices--as the starting point for its social management. This is another reason we are justified in our effort to separate, from the heterogeneous phenomena classified as the "second economy," the ones which are really important from the viewpoint of our social and economic progress, which should, and can, be regulated and controlled, and which are, according to our moral values, acceptable or at least tolerable, from those which find themselves beyond these limits. By their existence, these phenomena (which were called in the latest political resolutions as supporting or auxiliary economy) emphasize not isolation from, or opposition to, large-scale socialist industrial production but precisely dependence on large-scale socialist industrial production and distribution, i.e., a mutual connection of the two spheres in which the former has a dominating role.

The "second economy" is a very complex generic term of basically economic but at the same time also social and political phenomena related to socialism's fundamental principles and our basic moral values. It is not an accident that it was precisely the latter aspects which came to the focal point of the political attitude, public opinion and the scientific and quasi-scientific debates of the past 1 or 2 years. The main motivating factor in bringing up this question was politics and morality, even if it came about in economic science--at least as far as the area of science is concerned. This is another reason why its economic analysis and answer is indispensable and at the same time inadequate.

It is characteristic of the economic approach that it emphasizes the real economic necessity of the appearance and existence of the "second economy's" most significant activities (activities that "support" the national economy); it describes their important economic functions in better meeting demand, first of all in farming (where the household plots and auxiliary farms constitute about one-third of gross production), in the construction industry (where more than half of the residences are built by this sector), in foreign tourism and, to a much smaller extent, of course, in industrial production and in trade. Economic investigation emphasizes, quite rightly so, this sector's function in production and meeting of demand as opposed to that of distribution. The limitations of the economic approach become apparent when it makes proposals for future solutions or draws up conceptions about the "second economy's" future role, perspectives and development. For some of its proposed solutions have huge social and political price tags which also make their economic profitability questionable.

Where are the problems in the economic argument?

1. The supporting or auxiliary economy acquired its present role not only because state enterprises, as a result of their size, high production technology and mass production, are unable to meet certain special and differentiated demands, but also because their inflexibility, inadequate organization, and inefficient use of labor and material prevent them from doing that. The "second economy" thus not only simply "supplements" the state sector's activity, but in certain areas it counterbalances the inflexibility and low efficiency of the latter.

Thus the problems of economic and enterprise management which generally have played a significant role in the emergence of our economic difficulties are to a large extent responsible for creating the present volume of the auxiliary or supplementary economy. We are dealing here with problems such as deficiencies in the organizational system of economic and enterprise management, and inadequate material and non-material incentives.

Thus if we see the "legalization" and "institutionalization" of the auxiliary economy (according to the size of the state sector) as the right solution, the results of our action becomes highly questionable. For the debates that have taken place up until now undoubtedly have established that it is not only the auxiliary or supplementary economy that must be simply adjusted to the state sector but, conversely, that it is beneficial to examine in the light what the obstacles or more efficient incentives and flexibility are at the state enterprises in light of our experiences gained from the "second economy."

We clearly cannot accomplish this by mechanically applying to other areas, forms which have created structures and interests that have worked well in certain areas of the national economy and which follow special products and technologies and have established their own traditions. On the contrary: the only procedure open to us is to draw general conclusions from a systematic (or let us say, scientific) analysis of the well-proven organizational and interest forms, and to use these conclusions for a possibly better understanding, and solution to problems in other areas--without isolating these problems from their characteristic nature. This is the only way in which the experiences in household farming plots can be indirectly utilized in other areas such as for example, services or industry. The party's call for making use of these experiences is also to be understood this way.

At the same time, it is a dangerous blind siding of the arguments to justify the auxiliary economy's existence if we see the results of the "second economy" as a kind of victory of "small production" or private property over large industrial production and state property. The auxiliary economy's achievements can in no way make the historical advantage of the latter questionable; on the other hand, they clearly point to the fact that we have not yet been able to make an adequate use of the potentials inherent in both large industry and state property.

2. In addition to its "supplementary" role, we must also clearly see the "second economy's" competitive character, and its consequences. The point is not only that its activities "help out" the "first" economy in better serving the needs of the population and in improving supply and service, but also that they compete with it in the fight for the acquisition of resources available for the society.

These activities are hardly able to compete with state enterprises in the areas of fixed assets, machine equipment and materials, because our laws, which guarantee the hegemony of socialist property, set up strict limitations with regard to these.

On the other hand, the auxiliary or supplementary economy is highly successful in its competition for human energy resources and labor, because it is exempt from central wage regulations and numerous other social controls and is thus able to mobilize (legal or, from case to case, illegal) incentives against which the state enterprises are mostly helpless.

This is how the characteristic particular contradictory situation can emerge which, because of inefficient management and the labor force's apathy, the high productivity inherent in the enterprises' social organization and machine equipment frequently cannot be realized; on the other hand, the labor force in small production (which is often primitive and inefficient) is usually highly motivated.

The improvement of the auxiliary economy's organization and operation (e.g., the supply of goods and materials) is a task that may improve the efficiency of our economy as a whole. However, the steps taken in this direction will not make the measures dispensable which must be taken by the entire national economy as a whole to improve social organization.

At the same time, there are characteristic dangers inherent in the situation where the auxiliary economy in certain areas gains a monopoly over the state sector. This is hardly tolerable.

3. The auxiliary economy's most striking advantage is relatively higher incentives and financial interests. If we succeeded anywhere in Hungary today to realize distribution according to performance, i.e., that it is not work which adapts to wages but the wages follow the work accomplished, then these areas (I am thinking here of household plots and private construction) are to be found precisely in the sphere of the "second economy". It is well known, on the other hand, that wage differentiation according to performance is limited in the socialist sector: outstanding work seldom brings a proportionately higher income. This often results in a lack of increase in efficiency in the output of both the individual (e.g., the construction worker saves his energy for the week-ends) and the enterprise collectives.

In certain aspects, the secondary economy's wages and wage differences are not--cannot be--free of the effects of speculation and the boom cycle; on the other hand, they reflect down-to-earth economic realities (e.g., the labor market's supply and demand, prices, living expenses etc). In the light of the level of wages and wage differences that can be achieved in the "second economy," the state sector's wages are, for several aspects, outdated.

In evaluating the incomes in the two spheres, we face a characteristic dilemma: on the one hand, because of our economic difficulties and the expected changes in real wages, it is hardly possible to increase incomes in the state sector; on the other hand, again, because of our economic difficulties, we are forced more than ever before to make incentives in this sphere more effective.

We can hardly give a responsible answer today as to how this problem could be solved. But finding a way out is an unavoidable task in which both social research and social management [must] play a role.

However, from the viewpoint of progress, the approach can hardly be considered constructive in which incomes in the auxiliary economy (which often are many times higher than those in the state sector) are viewed as "unfounded", "unjust" and "unfair", and in which the doubts about the justification of the proportions in the state sector are mostly rejected.

One of the results of this is that we change and complicate our income regulations every year without achieving any significant results in the efficiency of financial incentives. In my opinion, it is high time to raise the basic question of how we could have more efficient incentives based on the present wages, wage differences, and other economic and social realities?

This question has nothing to do with the direction of our socialist development; the answer always depends on the given economic-political conception, the practice of economic management, and our (presently unfavorable) economic realities. But an answer would be desirable for having a clear view; it is downright imperative to realize our present economic-political goals.

We must recognize that the "second" economy has assimilated itself not only into our national economy but also into our society: there is hardly a class, stratum or group in our society which is not linked in one form or another to this economy. Farmers and mixed farmer-worker families have a fundamental interest in household plots (more than half of the small producers have their main job outside of agriculture); the majority of industrial and construction workers (usually the best qualified and most able groups) are interested in one form or another of moon lighting; and intellectuals (especially those who do creative work) participate in a wide range of "second economy" activities.

There is nothing that shows the social significance of the auxiliary or supplementary economy better than the estimate that about three-fourths of all families participate in its activities and draw greatly varying incomes from it.

There are, of course, groups in our society [i.e., those in executive positions, whose direct relationship with the auxiliary economy is very insignificant (in the sense that they participate in it actively for financial gain.) Indirect relationships, however, exist here, too, because this group consumes the products and uses the services of the auxiliary economy just like any other group. (In fact, we cannot ignore that this sector's excessive incomes--which are, incidentally, unfrequent even there--are a justification for putting the blame not only on the recipients but, indirectly, also on the highest-paid intellectuals and leaders--whose demands can often be met precisely by the auxiliary economy.

The direct incentive for participating in this activity is financial motivation: the demand for additional income emerges primarily where incomes are low (young people, large families) or where there are significant financial burdens (which is the only way their housing problem [acquiring an apartment]). It is clear, however, that such activities also fulfill non-financial demands: not infrequently, people are forced into them by enterprises which are unable to give them meaningful work, [or gives them work] which does not require their initiative, and which constricts their spirit of enterprise. (This is one reason why professionals, for example, especially technical professionals, do "maszekolas".)

The auxiliary economy generally improves the population's life style, since the goods, services--and often the incomes--so produced are a significant contribution to the financial-material conditions of a more pleasant and more cultured way of life. But the price society must pay for these benefits is high: the auxiliary economy's activities require 2 to 6 extra hours a day of work from a significant part of the population, and this work is usually very intensive. If we add to this additional work the other burdens that affect a significant part of the population (e.g., commuting), we can hardly consider the present extent of the auxiliary economy as unequivocally beneficial from the long-range perspectives of the socialist way of life. The latter would require instead that the population be able to afford a more cultured life style more and more through the production of socialist enterprises and incomes from normal working hours.

At the present stage of our socialist development, numerous activities of the auxiliary economy play a role which is not simply economic but also "auxiliary," which is significant from a social viewpoint as well. In numerous vital areas which fall within the limits of its own regulations (e.g., in those related to politically significant social groups and strata), social management, in matching society's interests, does not possess the means necessary for adequately implementing these interests within the state sector and regulated channels.

This is why the situation came about (and was built in the last 15 to 20 years into the system of maintaining balance between the interests), namely, that the interests of significant and powerful social groups, not fulfilled within the state sector, can be compensated for through the unofficial channels of activity and incomes in the auxiliary economy. As a result, the auxiliary economy plays a role which is auxiliary not only from an economic viewpoint but also from a social and political one.

But we must also see that this way of keeping the balance of interests does not come free: we must pay a political and social price for it. For if the strong interests of workers in some areas of the state sector are primarily related not to the collective efforts to achieve success there but to their personal activities in the "second economy" (i.e., "looking outside" during their work at the factory), then collective interest, or even a team spirit will be difficult to create in important areas (which clearly is not only a question of interest but which unites the workers). One reason why this creates problems is that the socialist enterprise is the primary area of the workers' political activity and the operation of political and social organizations.

Thus the examination of incomes and incentives within the socialist enterprises (an examination that also includes the experiences of the "second economy") is not simply a requirement of higher labor efficiency but it is also a vital political and social question.

The relationship between activities of the auxiliary or supplementary economy and a conscious social influence is still rather unclear today. On the one hand, in one sense how social management actions (consciously or unconsciously) contribute to their existence and, on the other, what means, if any, social management has to regulate, limit, or even eliminate the "second economy".

Regarding the first group of relationships, it seems to be rather clear that the conscious action of, or at least a lack thereof by the social management often plays a decisive role in the activities of the "second economy". The widespread "maszekolas" among construction workers is based on the well-known fact that about half of the residence had to be built from private resources in the last 10 years or so, and that this proportion has recently further increased.

Regarding the other group of relationships, several measures have been taken recently (in cartering and domestic trade) which were aimed at regulating this sector and at making it more efficient in meeting existing social demands. However, in looking at the wide range of activities which are included in the auxiliary economy but which are of very different character, it is very doubtful that the social management would be able, under its present economic (and social-political) conditions, to extend complete control over these activities; it can control them only to the extent it can control the economic (and social-political) factors which keep them alive.

(In fact, the auxiliary economy's proper regulation has the danger that, as a result of regulation, it would not be able to carry out its present functions. For example, we can expect little success if we try to tie down the "second economy's" existing labor force to the state enterprises under the current conditions and interest relations and through various organizational methods. It must be clear: the workers save most of their energies for the auxiliary activities, not only because there is no opportunity to make use of them in the state sector, but because the former offer much more favorable opportunities. Consequently, the auxiliary economy's regulation can be successful only if it also entails the improvement of the socialist enterprises' internal--and first of all, motivational conditions).

Finally, we must face the paradox that, although the most significant activities classified under the auxiliary economy are economically necessary and socially indispensable, some of them contradict our socialist principles and values. The "second economy" in political thinking and public opinion--and, we must recognize, also in social reality embodies small production, private property, social isolation, individualism and in some cases speculation and unjustifiably high incomes. This is one reason why numerous activities of the auxiliary economy are tolerable in our society in their semi-official or unofficial forms, (and the point here clearly is not the unequivocally legal household plot) but it is questionable whether it would be beneficial to institutionalize them. In making these decisions, the social and political "costs" must also be weighed alongside with the expected economical results. Especially because we have huge reserves among the activities within the area based on state ownership (incentives, improvement of organizations, improvement of management) which have not yet nearly been exploited.

The scientific justification and social utility of the "second economy" is debatable--its political utility, on the other hand, is downright doubtful. This is why it is a right and justified political effort to separate these very heterogeneous activities according to their social-economical meaning, political relationships, moral consequences, and the ability to socially regulate and control them, etc (an example for which is the handling of the auxiliary economy).

I think, even social research must draw the appropriate conclusions from this political aspect, because it cannot be indifferent either toward the social and political applicability of the concepts it introduces.

At the same time, the vague concept of the "second economy" does not make questionable the significance and timeliness of most social and economic problems that emerge under this heading. We can also formulate it this way: this concept encompasses perhaps the most extensive economic, social, and even political phenomena and processes which elicit the worry of social forces that are committed to our society's socialist development (albeit they approach it from various views and criteria). This is one of the reasons why the party is dealing simultaneously with these collective questions today—an unusual procedure. However, we must clearly see: the guarantee for further practical influence is precisely the separation of the parts of this heterogeneous group of phenomena, whereby the individual economic, social, political, and even moral characteristics (including their varyingly significant elements) are dealt with individually and, accordingly, the various methods of social action are sought. (It should deal separately with distribution according to performance, organization, the size and flexibility of organization, aptitude for leadership, initiative, teamwork, etc.)

The following formulation of the Politburo's February 1980 Resolution is to be followed in our search for solutions:

"Our national economy can develop, and our economic problems can be solved only on the basis of improving the socialist sector's work and activity. The increase of the socialist organizations' efficiency has a priority over all other economic tasks."

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PENSION LAW HELPS KEEP LAND IN PRIVATE HANDS

Warsaw CHLOPSKA DROGA in Polish 21 Sep 80 p 2

[PAP article: "335,000 Farmers Will Receive Pensions by the End of the Current Year"]

[Better Land Management. Allowances for Children Requiring Full-Time Care.]

[Text] Approximately 17,400 pensions and annuities were granted to farmers in August of this year by the regional branches of the Social Security Agency (ZUS). Thus, in July and August, the first 2 months of full implementation of the pension law, nearly 34,000 farmers received such benefits.

ZUS Vice-President Alojzy Firganeek estimates that by the end of the year approximately 60,000 more pensions will be granted. That would mean that during the current year approximately 160,000 farmers will receive pensions and annuities. At the end of this year, therefore, approximately 335,000 farmers, including all those who received pensions and annuities during the partial implementation of the pension law, that is, since January 1, 1978, will have received these benefits.

The significant increase in the farms being turned over to heirs is characteristic. While up until July, 75 to 80 percent of those applying for an annuity or pension turned their farms over to their heirs and the remaining 20 to 25 percent turned them over to the state, after full implementation of the state law in July and August, only approximately 10 percent of transferred farms were taken over by the state. The balance went to heirs. In many provinces experiencing difficulties with full cultivation of the land, the increase in the number of farms transferred from father to son facilitates the shift of generations in agriculture and livelihood, and also significantly increases agricultural production.

Up to the present, operation of the pension system has resulted in the fact that through the first half of the current year new landholders--heirs as well as collectives--took over more than 1.2 million hectares of land on which more intensive methods of production are being developed.

Therefore, by combining social and production matters, the pension law has an increasing influence on economic improvement through land. Today this is one of the overall conditions for increasing efficiency in agriculture and for improving fulfillment of our country's food requirements.

As of 1 July of the current year, cash benefits provided for in Article 23 of this law were implemented. As a reminder, this involves farmers who, before this law came into force, gave their farms at no cost to their children or grandchildren, or else relinquished them to the state pursuant to civil law provisions. As of the end of August, ZUS departments have received approximately 217,500 applications for such cash benefits, and positive decisions have already been made in approximately 200,000 cases. It is estimated that some 30,000 more farmers will apply for these benefits. ZUS branches have also started payments for farmers' children who, for physical, mental or psychophysical reasons, require full-time care by another person. As of the end of July, close to 3,000 applications for such allowances were approved. It might be added that they amount to 500 zlotys per month for each qualified child. The number of farmers applying for these allowances appears to be lower than originally estimated.

9461

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NEED FOR BETTER USE OF LABOR FORCE STRESSED

Bucharest ERA SOCIALISTA in Romanian No 24, 20 Dec 80 pp 13-16

[Article by Dr Iosif Dumitru Bati]

[Text] Obtaining a new quality in all social-economic life, a major demand written in the documents of the 12th party congress, as a main direction of action means the continued rise in labor productivity in all branches and areas of activity. This is a basic condition for increasing the national income and national wealth and for raising the standard of living which, in the end, is a vital requirement for affirming the superiority of socialism.

Throughout six five-year plans labor productivity in Romania has seen a continuous rise. Thus, the rise of labor productivity in industry and of the per capita national income, which reflect as a trend the evolution of all social labor productivity, is seen in the following way:

	1950	1965	1980	1980/1950 (%)	Average annual growth rate 1951-1980
Labor productivity calculated on the basis of total production in industry (thousands of lei per person)	30.6	105.0	293.8	9.3 times	7.7
Per capita national income (lei)	2,145	7,673	24,353	11.3 times	8.4

The growth in labor productivity in industry has been reflected in a considerable relative savings of labor force. If we were to suppose that the rise in industrial production in the 1950-1980 period were achieved without a growth in labor productivity, the number of persons employed in industry would have to rise from 813,500 to more than 27 million, which represents more than the country's entire population. In reality, the population employed in industry in 1980 will be around 3.3 million, that is, 2.5 million more than in 1950.

The annual average rise also was high for social labor productivity--8.4 percent for the whole period--which made it possible to reduce substantially the gap separating Romania from the economically developed countries. Yet social labor productivity still is several times smaller than these countries'. That is why there still is much to be done to eliminate the gaps.

According to the forecasts, a high growth rate of labor productivity is to be maintained in the next five-year plan. Calculated on the basis of value of net production, the growth in labor productivity in industry will be 7-7.5 percent average annually, and 5.4-6.2 percent in the construction-assembly branch; per capita national

income will rise at an average annual rate of 5.7 -6.4 percent. It also is forecast that around 80 percent of the growth in industrial production is to be obtained due to the growth in labor productivity, while also around 80 percent of the rise in national income is to be obtained due to the rise in social labor productivity.

Clearly, the base for the growth in labor productivity has been and continues to be the promotion of technical progress in all branches of material production, together with the better organization and leadership of production and labor. In this regard, the most efficient possible application of measures for the mechanization and automation of production and the modernization and extending of advanced technologies are very current. Also very current are the extensive and, in particular, intensive use of machinery and installations; appropriate utilization of the working time stock of all worker personnel in the enterprises and institutes; the appropriate organization and loading of work shifts, including technical assistance on each shift; reduction in nonproduction personnel and their move into production; efficient redistribution of the available labor force (following measures of rationalization) among the enterprises in the same branch or among branches.

In the first half of the current year, the indicators of utilization of basic machine tools for industry as a whole exceeded 85 percent, while the plan forecasts were not totally fulfilled. More intensive use of modern equipment with which the enterprises have been supplied in recent five-year plans and of the technologies created or acquired from abroad would permit us to obtain much greater labor productivity than what has been achieved now.

It is known that many machine-construction plants have been supplied with machine tools with numerical control, equipment which contributes substantially, on one hand, to reducing auxiliary time and time for preparing the manufacture, which is reflected in the growth in labor productivity and, on the other, to reducing some errors in carrying out the operations, which is reflected in the reduction in percentage of rejects. Despite this, in some enterprises the degree of utilization of the stock of maximum available time for these machine tools does not exceed an average of 40-60 percent. Among the causes we mention the lack of labor force with appropriate qualifications or the numerical programs, the lack of tools or spare parts and so forth. There also are cases where relatively simple parts which do not require such equipment, are processed for the machine tools with numerical control.

Eliminating these shortcomings involves firm measures for the rational organization of production and labor, improvement in the technological preparation of manufacture, minimum loading of the machinery capacity with the manufacture of parts appropriate for the performance of each one, timely supply with the numerical programs, quality tools and spare parts as well as necessary labor force. Positive results also could be obtained by closer linking of the work standards and pay for the number of actual hours of operation for each machine at the parameters guaranteed by the suppliers.

The level of labor productivity, in the first half of this year under the plan forecasts, also has been affected by a certain reduction in the degree of utilization of stock of working time of the workers compared with the corresponding period last year. Losses in working time caused by interruptions in production, by leaves and vacations without pay and unmotivated absences for industry as a whole rise to tens of millions of man hours, which truly causes losses in production and failure to achieve the planned labor productivity. Also added to this is a certain tendency demonstrated

recently of reducing the share of work done by the piece, in total time worked, as well as in the degree of extending work by the lump. It is stringently necessary to adopt efficient measures in order to assure the steady and uninterrupted roll of production processes, particularly through the prompt supply of the places of work with materials and tools, appropriate maintenance of the stock of machinery and equipment, perseverant application of the principles and measures to improve the economic-financial mechanism. At the same time, the aspects connected with the utilization of the stock of working time must be analyzed and followed for all categories of working people and not just for workers, as currently is the procedure through the record-keeping system. What should be provided in particular is maximum use of the stock of working time of specialists, engineers, economists and other specialists who work in research, design and other departments of concept in the enterprises and centrals, mobilization of their creative ability for the purpose of the continued renovation of production, assimilation of products of a high technical level, with high economic efficiency and in full agreement with the requirements of the domestic and foreign market. Also in this area it is very useful to consistently use the levers offered by our economic-financial mechanism, including the system for payment for work.

In recent five-year plans persevering efforts have been made for rational use of the labor force, continual reduction in nonproduction personnel and their move into material production, generally to improve the structure of worker personnel employed in the economy. The situation is as seen below for the economy as a whole and for the industry branch:

Average Number of Worker Personnel for the National Economy as a Whole*				
	1950	1975	1979	1979/1950 (%)
1. Total personnel:	2,123,000	4,305,300	7,183,000	338.3
in industry	813,500	1,675,600	3,227,400	470.5
2. Total workers:	1,222,900	3,109,900	5,753,300	470.5
in industry	640,900	1,441,000	2,945,400	459.8
3. Total technical, scientific and administrative personnel (TESA)	900,100	1,195,400	1,429,700	158.8
in industry	173,100	234,600	282,000	162.9
4. Share of technical scientific, administrative personnel, of which	42.4	27.8	19.9	—
% are in industry:	21.3	14.0	8.7	--

* Calculated according to "Statistical Yearbooks of the Socialist Republic of Romania.

From an analysis of the figures we see that in the period we are referring to, the total number of persons employed in the economy rose nearly 3.4 times, while the number of technical, economic personnel, other specialty personnel and administrative personnel obtained as the difference between the total number of worker personnel and number of workers, rose only about 1.6 times. As a result, the share of workers in total worker personnel in the economy rose from 57.6 percent in 1950 to 72.2 percent in 1965 and to 80.1 percent in 1979, while the share of scientific, technical and administrative personnel was reduced appropriately. As a result, the number of workers on the average belonging to one person in the TESA category rose from 1.36 in 1950 to 2.60 in 1965 and to 4.02 in 1979. Similar, even more emphatic trends appear in

industry taken separately. While the share of TESA personnel in total number of worker personnel for the economy as a whole fell 2.1 times in the period analyzed, the reduction is nearly 2.5 times in industry.

These changes in the structure of worker personnel, which was positively felt in the growth in our country's social labor productivity, were produced under conditions of deep social-economic changes due to the industrialization process as well as important organizational measures adopted throughout the time, particularly during the last three five-year plans. In particular, it is a question of the development, concentration and modernization of industry, extending of the setting of TESA personnel and application of unified structural standards in all units, establishing the share of TESA personnel in total number of worker personnel for each ministry and for the main branches of activity (industry, construction-assembly, transportation and so forth).

Substantiation for the rise in labor productivity and planning for this require a more detailed knowledge of the structure of worker personnel, including the worker category. In the practice of planning and the system of current regulations we meet more groupings of categories of worker personnel. The following indicators are approved through the single national plan for social-economic development: total worker personnel, of which there are workers and production technical personnel (foremen). After subtracting these two categories of personnel, the difference compared with the total is the technical, economic, other specialty and administrative (TESA) personnel. Council of State Decree No 162/1973 established the following structure for worker personnel in the economic units: a) workers; b) direct leadership personnel for production and other specialized personnel in the production sections; c) personnel for leadership of units as well as heads of service and heads of offices; d) personnel for specialties, excluding the one provided in b); e) administrative personnel; f) service personnel.

A more detailed grouping than the one utilized currently in the statistical reports compiled periodically was used during the experimental action for improving the organization of enterprises in each industrial branch, an action which took place this year and which aims at an analysis of the structure of worker personnel. For example, the structure of worker personnel obtained on this basis at the Bucharest Heavy Machinery Enterprises is as follows:

(in %)

1. Total worker personnel	100
2. Workers, of which ___% are:	84.6
a) Direct production workers	62.0
b) Indirect production workers, of which ___% are in:	22.6
Maintenance and repair	9.8
Internal transport and handling	8.2
Technical quality control	
Checking and maintenance of tools, devices, controls	1.1
General service	3.5
3. Foremen	2.3
4. TESA personnel:	13.1
Technical personnel in sections, production shops	3.9
Other personnel in sections, production shops	.7
Research-design personnel	2.7
Administrative personnel (operations)	5.8

The figures show that approximately 70 percent of total worker personnel at this enterprise participate directly in carrying out material production, thus being actual production personnel, production personnel or direct production personnel. The number of these categories of worker personnel evolves in close correlation with the volume of production, generally taking into account the influences resulting from the rise in labor productivity in accordance with the level of technical supply, improvement in the organization of production and of labor, rise in qualifications and so forth. The difference of around 30 percent is formed of categories of personnel who are not involved directly in production, being nonproduction, indirect production or auxiliary personnel. The number of these categories of worker personnel should not rise together with the rise in volume of production; on the contrary; it even can be reduced through application of efficient measures for mechanization, automation, simplification and rationalization of office activities, records and so forth.

A thorough analysis of the structure of worker personnel in the context of the action to improve the organization of production and labor at the Bucharest Heavy Machinery Enterprise has permitted technically and economically substantiated measures to be worked out for reducing the number of personnel not directly involved in production. Thus, through mechanization of some heavy labor processes, particularly in the hot sectors, through improvement in the flow of manufacture and internal (plant) transport, improvement in the management of raw materials and secondary resources, simplification and rationalization of the record-keeping system, particularly the one that is the foremen's task, and so forth, it has been possible to reduce the number of indirect production workers and administrative personnel by about 30 percent, with them to move to worker personnel directly connected with production. The measures adopted are within the guideline given by Comrade Nicolae Ceausescu at the 14-15 October RCP Central Committee Plenum "that we make a considerable improvement by June 1981 in use of the labor force by moving more than 100,000 people from the nonproduction sectors into the production sectors." Firm promotion of this guideline will contribute to eliminating the difficulties signaled in some production sectors (mining, iron and steel, machine construction--particularly the hot sectors--and assembly-construction) due to a lack in labor force.

Recognizing the existence of and need for eliminating such difficulties, at the same time it is necessary to combat the tendencies by which they are formally presented. When the reports compiled on the degree of utilization of the maximum stock of time of the machine tools available are presented, for example, also presented are the causes which make stock of time not be used. The figures presented by the industrial units for the first half of this year show that more than half the volume of available time of the machine tools not utilized was due to the lack of a labor force, while the rest of the accidental repairs (around one-fourth)--to the lack of orders (around one-tenth) and so forth. Under the conditions in which the plan for labor productivity is being fulfilled, the explanations regarding the lack of a labor force can be taken into consideration. However, in a situation where this indicator is not being fulfilled according to plan forecasts and the stock of personnel's working time is not being utilized appropriately, as actually happened in the particular period, the causes must be sought not so much in a lack of labor force but, in particular, in the poor organization of production and work.

That is why Comrade Nicolae Ceausescu rightfully emphasized: "It is not the lack of a labor force that is being put forth today in Romania! We still have enough and the

problem is of providing good use of the labor force." In other words, during the current stage, more and more the main source of labor force is becoming utilization of it under the most reasonable conditions. Seeking the application of this very important and current principle, it was planned at the Bucharest Heavy Machinery Enterprise for a portion of the personnel which had become available from auxiliary sectors to be requalified, moved into basic production, to be used to increase the degree of utilization of high-performance equipment's stock of time with which this enterprise is supplied. Calculations show that one hour of having this kind of complex equipment standing still leads to a loss of several thousand lei of production. Thus, annually a production of 300 tons of performance parts at a minimum price of 40,000 lei per ton could be obtained for a boring mill or a turning and boring lathe for processing large parts, which means an annual production valued at 12 million lei. These machines generally are serviced by a highly-qualified specialist worker. Experience shows that in a situation where this worker is aided by at least another worker to supervise, maintain and operate the machinery under good conditions, at least a 10-percent increase may be obtained in its output, which means an annual supplementary production of around 1.2 million lei in the example given. Under these conditions, clearly, the planned redistribution of the labor force is efficient and carried out in the growth both of volume of production as well as of labor productivity.

I think that the deepening problems connected with rational utilization of the labor force in the national economy and in each unit require some improvements in grouping the worker personnel as well as in the terminology utilized. This necessity, on one hand, derives from the complex nature of our economy and, on the other, from the demand for guiding efforts as judiciously as possible in the direction of increasing labor productivity.

As could be observed in the previous table, the worker category is divided into two big groups within the statistical grouping utilized to analyze the structure of worker personnel: direct production workers and indirect production workers. In the second group are also included workers from activities of maintenance and repair, internal transport and handling as well as from technical quality control.

Clearly, reduction in the number of workers employed in the second group can take place to the extent to which the labor standards at the basis of determining this number are not appropriate or mechanization and automation are extended for some of these activities. For example, the introduction of complex automation, industrial robots and so forth will eliminate many jobs in the future from technical quality control and internal transport; in exchange, it will lead to an increase in number of jobs in maintenance and repair activity. However, to the extent to which the problem is posed of reducing the share of number of workers who are indirectly in production and not only of their number, it is necessary to reanalyze whether all those currently grouped in these activities truly are indirectly in production.

The continued promotion of technical progress, the current and future trends for mechanization and complex automation of production processes as well as the stringent need for full use of the maximum available stock of time of the equipment and fixed assets in general raise urgently the need for appropriate organization of maintenance and repair activity in all the industrial units. Under such conditions, the work carried out in this area is connected most directly with production, since it assures that the activity of the workers directly in production takes place to the greatest degree. An additional argument also is the fact that the workers in the enterprises specializing in maintenance and repair activities are considered as directly in production, while

the workers carrying out the same activity in another type of industrial enterprise are considered as indirectly in production (for example, maintenance and repair activity for computer technology).

Similar problems also are raised in connection with workers in the technical quality control sector in the phases or at the end; by the content of their work, they are integrated organically into the process of material production, thus contributing to the prevention of rejects and to eliminating the possibilities of sending products of improper quality to domestic beneficiaries and for export and, in the end, contributing to the saving of social labor. Also in a similar situation are a portion of the workers working in internal transport and handling and integrated into the technological formations, participating in producing the products (for example, crane operators integrated into the technological forging and casting formations). The aspects and arguments shown plead for a critical reconsideration of the area including the group of workers directly in production.

Some improvements also are possible in the method of grouping TESA personnel. A large part of the technical personnel work directly in production, heading work formations; others provide guidance and technical assistance for the correct application of manufacturing techniques and for producing the products (section techniques) or they do jobs at fixed positions, such as assembly and regulating of highly complex apparatuses in the petrochemical, energy and metallurgical industry; supervision and regulating of production processes in the highly complex automated installations. Also, together with increasing the tasks to promote technical progress, improving the activities for technical preparation of manufacture and for programing and following production and mechanical-energy jobs, considerably reducing material costs, raising economic efficiency in general--thus, together with all this--research and design plant personnel and other categories of technical, economic and other specialized personnel involved in these types of activities are directly linked with carrying out, coordinating and heading the production processes. What should be analyzed is to what extent it is possible to broaden the area including the category of "technical personnel in production," which presently groups only foremen and this category of worker personnel should be separated from those in administrative activity. Of course, as in the case of technical personnel in production, there is an acute need to set the number, depending on the volume of activity, and to establish certain judiciously substantiated standards of work.

A unified concept in the complex problem of grouping worker personnel also should be reflected in the area of the terminology utilized. We have in mind such notions as production personnel and nonproduction personnel, direct and indirect production personnel, personnel in the area of material production and in the nonproduction area, production work and nonproduction work and so forth. Economists and statisticians, sociologists and philosophers should make their contribution to clearing up these concepts. Of course, the consensus which would be reached at one point cannot be considered a final one, good forever, but, from time to time, the concepts should be confronted with the changes taking place in social-economic life.

Under the conditions where, in the current stage, it is necessary to reduce the number of personnel not directly involved in production on the basis of judiciously thought out measures and move them to production personnel, with positive effects on the growth in production and labor productivity, the main reserves for continuing to increase social labor efficiency can be utilized through actions to improve the

utilization of production personnel. Measures for mechanization and automation, for introducing robots into the production process and for the automatic data processing with the aid of modern computer technology, undoubtedly will provide a leap for labor productivity. Logically the bigger the leap is compared with that of the increase in volume of production, the more changes will occur in the structure of worker personnel, taking into account that a portion of personnel in production and a portion of the ones not directly involved in production will be reduced in differing proportions, to be redistributed to other units in the same branch or even to other branches of the economy. Thus, changes in both directions can be produced in various stages: increase or reduction in the share of production personnel in total worker personnel. That is why it is necessary to follow very carefully the trends appearing in the change of the structure of the labor force in enterprises, closely connected with the level and evolution of labor productivity, on this basis working out the strategy for providing, training, redistributing and, in particular, rationally utilizing human potential in strict agreement with the requirements of the national economy and of each enterprise separately.

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MEASURES INCREASING PRICES IN AGRICULTURAL SECTOR EXPLAINED

Bucharest SCINTEIA in Romanian 13 Dec 80 pp 1,4

[Article by Iosif Pop: "Strong Stimulus for Increasing Agricultural Production and Increasing Its Economic Effectiveness"]

[Excerpts] The decision of the Political Executive Committee of the RCP Central Committee of 2 December 1980 concerning the increasing by 11.8 percent of production and contracting prices in state agricultural and cooperative units, as well as for individual producers, is part of the constant concern of the leadership of the party and our state to assure the development of this basic branch of the national economy at the pace required by the development of industry and especially, the processing branches and by the ever-increasing demands for food products on the part of the people. The measures concerning the increasing of contracting prices for agricultural products and the modification of fees for the work of the stations for the mechanization of agriculture and designed to considerably increase the material incentive of socialist agricultural units and of the peasantry for carrying on a more efficient activity, to stimulate the effort to increase agricultural production and to ensure, on this basis, the improvement of the supplying of the population with meat, milk, sugar, oils, vegetables, fruit, etc.

Why is it necessary to increase the contracting and production prices for the principal vegetable and animal products and to modify fees for operations of the stations for the mechanization of agriculture? First of all, to ensure a more efficient operation of the stimulating levers and a better incentive for producers to increase agricultural production. At the present time, the contracting prices for agricultural products ensure the development of a profitable activity for those units which achieve the planned yields. In all counties, there are such units which obtain large revenues for the majority of products and which conclude their activity with considerable profits. At the same time, however, there are numerous units--state agricultural enterprises and agricultural cooperatives--which do not achieve the plan indicators, which obtain small yields per hectare or low yields in the livestock area, resulting in the fact that they do not achieve profits for the principal products and even end their activity with losses. In some cases, and, in particular, in regard to products in the zootechny sector, the contract prices established earlier--in addition to the fact that they were calculated on the basis of planned yields which were much too high considering the possibilities--no longer correspond to the changes which occurred in the production process and, as a result, they no longer accurately reflect the expenditures of manpower and

material incorporated into each product. An example of this is the low price of milk which does not give the producers any incentive to increase the number of cows and modernize the production processes. It is known that during recent years this sector was oriented toward intensive development which entails large outlays for the modernization of stables, the procuring of good quality fodder, and the care of the animals. All these things have resulted in an increase in production costs, which, in a large number of cases, exceed the level of the contracting price and, from a financial point of view, this activity has appeared to be unprofitable. This is why a price which is set on better economic bases, paid to the agricultural producer, is a stimulative measure, one of great significance for the support of this activity.

In the second place, the updating of prices in agriculture is promoted by the need to unify contracting prices for the two socialist sectors of agriculture--the state and cooperative sectors. Over the course of time, different levels of prices had been established for many agricultural products--for one and the same product--lower for the state agricultural enterprises and higher for the agricultural production cooperatives and the units belonging to the people. Of course, these differences reflect certain concrete conditions existing in the period in which the prices were set. The state agricultural enterprises had a better technical base and more chemical fertilizers. They utilized lower purchasing prices and had cadres with better training, thus, they had the conditions to incur lower production costs than the agricultural cooperatives. In recent years, however, the production conditions of the two sectors have been becoming more similar and a unification of supplying process has been achieved. In this situation, the differentiation of prices was an anachronism; with different prices being maintained for the same production conditions, it is normal that the efficiency would be different. For wheat, for example, where the difference in price was about 300 lei per ton, for an average yield of 4,000 kg per hectare the agricultural enterprises realized an income of 1,200 lei less than the agricultural cooperatives in the same zone.

In the third place, the updating of prices in agriculture was prompted by the need to modify fees for the work of the stations for the mechanization of agriculture. These fees were established many years ago on the basis of principles which were correct in their time and which had the purpose of redistributing the income differences between units in flat and hilly areas. Large fees were set for work in the plains while fees for work in hilly and mountainous zones were much less. As a result, the stations which operated in the plains concluded their activity with profits while those in the hilly areas worked with losses, even if they carried on a better activity than the former. Moreover, for agriculture as a whole, these fees did not cover the actual expenses incurred by the stations and the difference was borne by the budget. This was a result of the increase in the prices of some products needed by the stations, especially, fuels and lubricants. Obviously, under the conditions of the application of the new economic mechanism, which presupposes that all units will take care of their own expenses and obtain, in addition, an appropriate profit, this situation could not continue.

What implications will these changes in the production and contracting prices for the principal agricultural products and of fees for the stations for the mechanization of agriculture have for the economic activity of the agricultural units? As

was stated in the communique of the session of the Political Executive Committee of the RCP Central Committee, the agricultural units and the individual producers will benefit from supplementary incomes of more than 5 billion lei each year. First of all, it should be said that these supplementary incomes must be matched by better and better organized work and more and better quality agricultural products. No matter how great the stimulative effects of the increase in prices and fees might be, this is not enough to achieve good results in increasing agricultural production and in increasing its efficiency. In addition, under conditions of improper activity, a high price means waste and small yields generate losses. This is why very high responsibility is required on the part of all agricultural workers as well as a firm commitment to raise to a higher level all activity in this basic branch of the economy. It should be clear to everyone that when more products are produced, more efficiently, greater revenues will be obtained. In this regard, in the mechanization stations, measures should be taken for the improvement of the utilization of tractors and machine systems and the execution of agricultural work during the optimum time period, with high quality, so that the teams of machine operators will be associated to a greater extent with the activity and results of the units which they serve. It is believed that only by increasing the level of utilization of the tractors to at least 180 days a year and by eliminating waste in the use of fuels and lubricants can the stations for the mechanization of agriculture achieve supplementary savings which would eliminate the effect of the price increase for the principal products used by them.

In the agricultural units, responsibility should be increased for the better use of the land, especially land in which large amounts of money have been invested for irrigation, drainage, and protection against floods. The production obtained on many of these areas is far from the level established by approved technical and economic studies. Under these conditions the effects are much more damaging since the minimum quantity of products which the national economy is expecting is not achieved and, in some cases, the producers must spend much more than the incomes which they obtain. Also, the specialized organs of the Ministry of Agriculture, together with the research institutes, will have to establish a program and introduce highly productive varieties and hybrids of plants and improve animal breeds in accordance with current requirements, which will be verified under the soil and climate conditions of our country. In zootechny, in addition to the measures for achieving the necessary number of animals and improving the breeds, normal conditions should be assured everywhere for providing fodder for the animals.

The new measure for updating the agricultural prices does not affect in any way the prices of agricultural and food products which are sold to the population by means of the state and cooperative network. As we know, the Political Executive Committee of the Central Committee of the Romanian Communist Party has decided that for 1981 the increase in contracting and production prices will be borne by the state budget and the current retail selling prices for the population will be maintained.

The entire activity of increasing contracting and production prices for the principal agricultural products and modifying fees for the work of the stations for the mechanization of agriculture has the goal of creating conditions so that the principles of the new economic-financial mechanism will be strictly applied in every agricultural unit and so that the responsibility of agricultural workers for

the following will be increased: better management of the land, rational use of technical means, the execution of good quality work, the better care of animals, the reduction of production expenses and the assurance of high productivity. By increasing average production per hectare or per head of animal, by better management of material and financial assets, by reduction of production expenses, each agricultural unit will have the opportunity to carry out its activity effectively, on the basis of economic and financial self-administration and to obtain profits for all agricultural products and ever-increasing economic efficiency.

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